

Risk based internal auditing

**Audit
Manual**

**David
Griffiths**

PhD FCA

www.internalaudit.biz

Version 3.0

Introduction to www.internalaudit.biz

Welcome to risk based internal auditing (RBIA). The aim of this website, and the books and spreadsheets available from it, is to push out the boundaries of internal auditing by providing practical ideas on implementing (risk based) internal auditing. These ideas are not meant to represent 'best practice' but to be thought provoking.

There are four books with associated spreadsheets

1. *Book 1: Risk based internal auditing - an introduction.* This introduces risk-based principles and details the implementation of risk based auditing for a small charity providing famine relief, as an example. It includes example working papers.
2. *Book 2: Compilation of a risk and audit universe.* Book 2 aims to show you how to assemble a Risk and Audit Universe (RAU) for a typical company and extract audit programs from it. The audit program in this book (4) is based on the accounts payable audit from the RAU in Book 2
3. *Book 3: Three views on implementation.* Looks at the implementation of risk based internal auditing from three points-of-view: the board; Chief Audit Executive (CAE); internal audit staff.
4. *Book 4 Audit Manual.* (This book). The manual provides ideas about how to carry out a risk based internal audit of accounts payable. It is based around the actual working papers, similar to those in the audit from Book 1.

Please remember when reading the book and the spreadsheets that they are only presenting *simplified* examples. In practice there would be many more objectives, risks and controls than I have listed. It is your responsibility to take the ideas you like and adapt them for your organization. Please don't blindly copy them.

Finally, Risk based internal auditing by David Griffiths is licensed under a [Creative Commons Attribution-NonCommercial 3.0 Unported License](https://creativecommons.org/licenses/by-nc/3.0/). I don't mind you using parts of it, provided you quote this source. It should not be used to promote any product or service, without my permission. I do mind you making money out of it, unless I get some!

Many thanks and happy reading...

David M Griffiths Ph.D. F.C.A.

Introduction

Purpose of this manual

This is the manual which details the standards to be adopted during the audit process. It corresponds to the Institute of Internal Auditors' Performance Standards in the *Professional Practices Framework* as applied to the individual audit.

- *But* – no-one reads a manual. Instead, they find out what to do by looking at the files from the previous audit, or any similar audit!
- *But* – suppose that file, and the audit work, could be improved? It won't be if we build on imperfect work.

So why not create an example file to show the way an audit should be done and documented – this is it.

So the purpose of the file is to:

- Provide guidance on the conduct of an audit, and the documentation required, in order to ensure consistent quality in our work.
- Use as a basis for training new staff

When this manual should be used

- For all audits and projects (systems developments) where possible.
- During the reviews, to set the standard to judge audit work against.
- For training new staff.
- For reference at any time.

It is for guidance only. The underlying principle is to create a file which clearly shows:

- How the opinions in any report, or letter, have been reached.
- That sufficient work has been done to reach these opinions.

Structure of the manual

Prior to the use of computers, an audit manual would have been a file of papers split up into sections such as Scope, Test etc. The use of computers has resulted in a variety of methods to record audits, from specific applications to word processors, spreadsheets and databases. Book 1(RBIA - Introduction) has example working papers based around a spreadsheet with hyperlinks to the audit documents in Word.

The audit details for this manual are similarly recorded in a spreadsheet (Excel), with a word processor (Word) used for documents such as the Scope and Audit Report. However, the documents are included in this manual, not as separate files.

This manual retains the structure of a paper file and incorporates the word documents and excerpts from the spreadsheet, since it is easier to include the instructions in this format. The file is referenced as if it were a paper file.

How to use the manual

- The manual is an example file, with all the typical documents expected from an audit shown on the right hand side page. On the opposite page are the performance standards applying to the document.

RBIA - Manual - Introduction

- Thus the instructions (how to audit) are on the left page and the audit file (the example) is on the right. I've tried to differentiate the two documents by using different headers and fonts.
- The instructions are split into sections, which have a standard format:
 - Output of process – what document the process produces.
 - Standards – what the document should contain.
 - Work plan for achieving output – how to produce the document.
 - Advice for achieving output – hints to make life easier.
- **I recommend the manual is viewed in Adobe Acrobat in order to preserve the formatting::**
 - It should be viewed as two pages (View/Page display/Two page view).
 - Tick 'Show cover page in two page view' (View/Page display/)
- If the manual is to be printed, it must be double-sided. Dividers should be inserted before each section.

The example manual

- The manual is intended to provide guidance on carrying out a risk based internal audit. It aligns with the Performance Standards of the International Standards for the Professional Practice of Internal Auditing (Standards) (known as the IPPF) issued by the Institute of Internal Auditors. Numbers in brackets, like (2330) refer to paragraph numbers in the IPPF.
- This manual is not intended to cover the Attribute Standards (internal audit charter, independence etc.) of the IPPF.
- The manual is presented in the form of an actual manual for a fictitious retail organization. No connection with any actual organization is intended or implied.
- The processes documented in this example manual are based on a computerized accounts payable application. I have chosen accounts payable because the objectives and risks are similar across all organizations. However, it should be possible to use this example as the basis for any audit: strategic, financial, operational or compliance.
- The audit has been taken from the company's Risk and Audit Universe developed in Book 2 - Compiling a risk and audit universe.
- The AP application is extensive and I have not documented the entire system since it would be time consuming and irrelevant to many readers. It is your responsibility to fully understand your processes before auditing them.
- The manual needs to be read in conjunction with the spreadsheet file downloadable from www.internalaudit.biz (<https://www.internalaudit.biz/files/manual/rbiamanual.xlsx>)
- An internal audit involves:
 - Establishing the risk maturity of the processes and functions which deliver the objectives.
 - Based on the risk maturity, carrying out sufficient testing to form an opinion on the likely achievement of these objectives.

RBIA - Manual - Introduction

The objectives, risks and controls, plus the processes and functions which deliver them, form an 'audit universe' specific to the audit being carried out. I refer to this audit universe in this manual as the 'audit area'.

- This example file differs from an actual version in that:
 - The spreadsheet would be used as the basis of the audit, with word processed files referenced from it. The working paper example with Book 1 shows this.
 - Not all processes and tests are documented in this manual and the accompanying spreadsheet. This manual only shows examples.
 - All pages are numbered in this manual – this is to make assembling the manual easier.
 - The audit file pages are filed chronologically, that is the most recent last in the file section. In practice some documents might be filed with the most recent on top, since this is the latest version.
 - Where there would be many documents, such as meeting notes or test details, only a sample are included.
 - Draft documents are included, to show the audit process in full. In practice some organizations may decide not to do this. I favor keeping important drafts, such as reports, as the reviewers may wish to see how issues were resolved.
 - Where the term 'document' is used, this may refer to a worksheet in a spreadsheet or word-processed document.
 - Responses are required to bring risks down to an acceptable level (the 'risk appetite'). These responses are usually considered as (see Book 1)
 - Terminate the risk
 - Transfer the risk (for example: insure)
 - Tolerate the risk
 - Treat the risk (set up internal controls)
- For clarity, I refer to all these responses as 'internal controls'.
- Although the spreadsheet includes COSO attributes in the Objectives, Risks and Controls Register (ORCR) at the end, I haven't incorporated these into the example. Maybe later...Or you can do it.
 - I have used U.S. English as the spelling standard, since most browsers accessing www.internalaudit.biz are set to this.

Copyright

- Risk based internal auditing - the Manual by David Griffiths is licensed under a Creative Commons Attribution-NonCommercial 3.0 Unported License. You may copy and amend it for the purposes of your organization but not sell it. You should refer to www.internalaudit.biz in your manual.
- Some parts of this manual refer to the Institute of Internal Auditors Standards and the *numbers in brackets* refer to the relevant standard. Copyright of the IIA is acknowledged. The Institute does not endorse this document in any way.

Amending the manual

- When you change this document remember that “section breaks” are at the end of each page. If you exceed a page length you will need to insert two section breaks to bring the pages into line. I suggest you amend the document with returns and page breaks switched on in the 'Home/Paragraph' menu. You may also need to alter the headers to switch off “Same as previous”.
- The manual is formatted for European A4 size paper. If you use a different size paper, I would suggest you amend the document with paper size set to A4 and save the document as a pdf before circulating or printing it.

Insert a file divider after this page

Internal Audit

File index



File index - Paper file

Output of process

- Index showing the sections of the audit file.

Standards for the structure of a paper file

- This structure is for guidance only; the sections actually used will depend on the audit documents to be filed.
- Each section should consist of no more than approximately 20 documents.
- Sections should be arranged such that documents are easy to find.
- Each section should be preceded by a labeled divider.
- All pages should be referenced in red on the top right of each page (the reference number is the letter and numbers in the red box).

Work plan for achieving structure

- Set up sections at the start of an audit, so that documents can be filed as they are obtained but be prepared to set up new sections if some get too large.

Advice for achieving structure

- If you need to insert more documents after referencing use letters, for example "D3a".

File index - Computer file

Output of process

- Computer worksheets file with spreadsheets for each section. See section M for more details.

Standards for the structure of a computer file

- Each audit should have a directory, using the unique identifier of the audit (audit number for example)
- Set up sub-directories as necessary for planning, meetings, scope, testing (including the ORCR) and reporting.
- The appropriate spreadsheet workbooks should be hyperlinked to the word processed files.
- Word processed files (such as the report) should have names which include the audit identifier, for example 205draftreport.docx.

Work plan for achieving structure

- Set up directories at the start of an audit, so that documents can be filed as they are obtained but be prepared to set up new sections if some get too large.

Advice for achieving structure

- It may be necessary to scan copies of documents which need to be retained for record, such as invoices, or maintain a paper file.

Internal Audit

File index

Audit title		Audit No.
Accounts Payable		205
Audit group	Dates	Personnel
AP	Jan 20X1	M Davis, F Sawyer
Contents		Section
Audit management		A
Background Information and notes		B
Scope		C
Meeting notes		D
Risk maturity		E
Objectives, Risks and Controls Register		F
Testing controls		G
Deficiencies		H
Draft report and comments		I
Final report		J
Quality control		K
Follow up work		L
Computer files		M
Version Control		

Insert a file divider after this page

Internal Audit

A – Audit management



Audit management

Section index A – Audit management

Purpose of section A

- This section holds the documents which show how the audit was managed and how it delivered the work outlined in the scope.

Standards for section A

- All important matters affecting the operation of the audit should be included, for example, changes to staff, reasons for delays, changes to the scope and the action taken if serious issues (such as fraud) were found.

Work plan for achieving section A

- This section should be updated throughout the audit

Internal Audit

Section index A – Audit Management



Accounts Payable

Contents	Ref
Milestones	A1
Outline plan	A2
Diaries	A3
Back to File Index	

A - Milestones

Output of process

- A document (or worksheet) showing targets for completing the main stages of an audit, and the dates actually achieved.
- A record of the authorizing of the scope and report.

Standards for output

- Dates included in the scope, and other documents sent to auditees should be noted as target dates. The important date being that of the final report circulation.
- Approval signatures for the scope and report should be included
- Target dates should be realistic. If it is obvious they will not be achieved, the CAE must agree new dates and the auditee informed.

Work plan for achieving output

- Set up the document when the audit is included on the quarterly plan, and staff assigned.
- This document should be updated at each review meeting.
- The appraisal process should include a review of target and achieved dates.

Advice for achieving output

- Don't be too optimistic on dates
- Complete it with reference to the Outline Plan

Internal Audit

A Milestones

A1

Accounts payable

Milestones	Resp	Target	Achieved	
Set up audit on quarterly plan	CAE	1-Nov-X0	2-Nov-X0	
Set up computer directories	Auditor	16-Dec-X0	16-Dec-X0	
Set up meetings	Auditor	16-Dec-X0	16-Dec-X0	
Issue draft scope	Auditor	17-Dec-X0	18-Dec-X0	
Final scope signed off. Authorizing signature:	P Jones	CAE	12-Jan-X1	12-Jan-X1
Final scope issued	Auditor	13-Jan-X1	13-Jan-X1	
Risk maturity confirmed	Auditor	2-Feb-X1	2-Feb-X1	
Processes mapped	Auditor	3-Feb-X1	3-Feb-X1	
Inherent risks agreed	Auditor	4-Feb-X1	5-Feb-X1	
Controls tested	Auditor	12-Feb-X1	12-Feb-X1	
Residual risks scored and agreed	Auditor	12-Feb-X1	12-Feb-X1	
Deficiencies entered into the database	Auditor	13-Feb-X1	13-Feb-X1	
Mid-audit file review	CAE	16-Feb-X1	17-Feb-X1	
Deficiencies agreed with business	Auditor	19-Feb-X1	19-Feb-X1	
Draft report issued	Auditor	20-Feb-X1	23-Feb-X1	
Final report signed off. Authorizing signature:	P Jones	CAE	5-Mar-X1	8-Mar-X1
Final report circulated	Auditor	8-Mar-X1	8-Mar-X1	
(COSO deficiencies report completed)	Auditor	8-Mar-X1	8-Mar-X1	
End audit file review	CAE	12-Mar-X1	12-Mar-X1	
All staff appraised	CAE	18-Mar-X1	19-Mar-X1	
Paper files stored in archives	Auditor	19-Mar-X1	19-Mar-X1	
Feedback to be obtained from:			date	
Accounts Payable Manager (Mike Khan)			15-Mar-X1	
Head of Accounting Services (Anita Smith)			16-Mar-X1	
Other Comments:				

A - Outline plan

Output of process

- A plan showing, for each person involved, their work on this audit and other commitments during the period.
- The full plan is in the worksheet: *A Audit Timetable*

Standards for output

- The period planned should cover the audit from the initial meeting to the issue of the final report.
- Show all staff affecting the progress of the audit, including the CAE and any auditee staff who are important to the progress of the audit.

Work plan for achieving output

- Start the plan at least three months before the start of fieldwork, earlier if managers and staff have full diaries, or if the audit involves complex travel arrangements and vaccinations.
- Draw up a table, or spreadsheet, showing dates.
- Determine availability of everyone involved – particularly absences from the office.
- Put details in the plan.
- Complete the “Milestones” schedule from the plan.

Advice for achieving output

- Where managers have full diaries, book meetings at this stage.
- Only include major time commitments which last at least a day (for example, holidays), not individual meetings.

Internal Audit

A2

A - Outline plan

Date		M Davis	F Sawyer	P Jones (CAE)
15-Dec-X0	Monday	205 Briefing from CAE		
16-Dec-X0	Tuesday	205 Set up files/scope		
17-Dec-X0	Wednesday	205 Issue draft scope		
18-Dec-X0	Thursday	204 Testing	200 Testing	
19-Dec-X0	Friday	204 Testing	200 Testing	
05-Jan-X1	Monday	204 Testing	200 Testing	Holiday
06-Jan-X1	Tuesday	205 Scope meeting		Holiday
07-Jan-X1	Wednesday	205 Amend scope		Holiday
08-Jan-X1	Thursday	204 Testing	200 Testing	Holiday
09-Jan-X1	Friday	204 Testing	200 Testing	Holiday
12-Jan-X1	Monday	205 CAE approves scope		
13-Jan-X1	Tuesday	205 Issue final scope		
14-Jan-X1	Wednesday	204 Testing	200 Testing	Out of office
15-Jan-X1	Thursday	204 Testing	200 Testing	Out of office
16-Jan-X1	Friday	204 Testing	200 Testing	
19-Jan-X1	Monday	Holiday	Course	
20-Jan-X1	Tuesday	Holiday	Course	
21-Jan-X1	Wednesday	Holiday	Course	
22-Jan-X1	Thursday	Holiday	Course	
23-Jan-X1	Friday	Holiday	Course	
26-Jan-X1	Monday	204 Testing	200 Testing	
27-Jan-X1	Tuesday	204 Testing	200 Testing	
28-Jan-X1	Wednesday	204 Write report	200 Write report	
29-Jan-X1	Thursday	204 Write report	200 Write report	
30-Jan-X1	Friday	204 Write report	200 Write report	
31-Jan-X1	Saturday			
1-Feb-X1	Sunday			
02-Feb-X1	Monday	205 Testing	205 Testing	
03-Feb-X1	Tuesday	205 Testing	205 Testing	
04-Feb-X1	Wednesday	205 Testing	205 Testing	
05-Feb-X1	Thursday	205 Testing	205 Testing	
06-Feb-X1	Friday	205 Testing	205 Testing	

A - Diary

Output of process

- A record of significant events, including targets, which occurred during the audit.
- Included in the spreadsheet

Standards for output

- Records targets and the achievement of these.
- Records failure(s) to meet targets, delays and the reasons for these.
- Records important stages such as the issue of the scope, draft and final reports.
- Records learning points for this, and other, audits.
- Records significant events, especially if possible frauds or major deficiencies discovered.

Work plan for achieving output

- While the diary does not have to be entered for each day of the audit, it is probably a useful discipline.
- The diary can be used during management reviews to note targets and their achievement.

Advice for achieving output

- One important reason for the diary is that it provides reasons for missing targets and if your salary depends on meeting targets...

Internal Audit

A3

A - Diary (1)

No.	Title		Timing
205	Accounts Payable		Q1 20X1
Staff 1	Staff 2	Man	
Max Davis	Frank Sawyer	Pat Jones	
Date	Achieved today	Next action	Target date
13 Nov	Briefing from CAE. Audit due early Feb. Booked scope meeting for 6th Jan.	Look at documentation, including Objectives and Risk Register and accounts payable manuals. Prepare draft scope	14 Dec
15 Dec	Briefing from CAE. Draft scope agreed with CAE	Set up directories and documentation. Draft scope to be issued 17 Dec	17 Dec
18 Dec	Issued draft scope. (Additional work on audit 203 delayed the issue) and agenda for Jan 6 meeting.	Prepare for Jan 6 meeting	6 Jan
6 Jan	Met Head of Accounting Services and AP Manager	Update draft scope. Obtain approval Arrange meeting with AP Manager and Supervisors	Jan 9
Jan 12	Obtained CAE approval.	Issue final scope.	Jan 13
Jan 13	Final scope issued		Jan 13
Mon Feb 2	Meeting with AP Manager and Supervisors. Assessment risk maturity	Write up notes from meeting Finish assessment risk maturity	Feb 2 Feb 3
Feb 3	Assessment risk maturity Draw diagrams of functions and processes Decided on audit approach	Assess risk scores Test operation of controls	Feb 13
Feb 4	Test operation of controls Checked invoices with no order. Mostly legal and properly approved but one found for J B Associates. Properly approved but why no order? No report produced.	Follow up JB Associates invoices.	Feb 5

RBIA - Manual - A Audit management

Note that some dates have been omitted from the diary to save space in the manual. They would be included in the real file.

Internal Audit

A4

A - Diary (2)

date	Achieved today	Target	target date
Feb 5	Pete Cooke wrote an enquiry program to find invoices with no order. Many JB Associates. All addressed to Jim Higson (the budget holder) and signed by him. Checked with Pat Jones. Meeting arranged with COO.	Write up all details	Feb 6
Feb 6	Meeting to update Anita and Mike on progress. Meeting with Chief Operations Officer about invoices with no orders.	Write up notes	Feb 9
Feb 9	Continued tests		Feb 13
Feb 13	Issues entered into ORCR Informal meeting with Mike Khan to confirm deficiencies found	Complete file Write draft report	16 Feb 20 Feb
Feb 17	CAE completed file review. (One day late due to her workload)	Draft report	20 Feb
Feb 19	Deficiencies agreed with business	Draft report	20 Feb
23 Feb	Draft report issued	Issue final report	8 Mar
3 Mar	All comments received. Draft report updated.	Get CAE approval	5 Mar
8 Mar	CAE approved final report. (She was not available on 5Mar) Final report issued	AUDIT COMPLETE	

Insert a file divider after this page

Background information

Section index B – Background information

Purpose of section B

- The documents which provide details around the processes being audited are filed in this section
- Used to plan the audit and as a basis for the scope.

Standards for section B

- If this section becomes large, file the papers separately
- Organize the documents logically, splitting the file if necessary, in order for the reader to be able to find documents quickly
- Clearly title computer files. Separate into several directories if necessary.

Internal Audit

B Background information



Accounts payable

Contents	Ref
Strategy/Objectives and performance data	
Organization chart	B2
Summary of system	B3
Process hierarchy	B4
Budget (computer file only) <i>(not included)</i>	
Back to File Index	

B - Background information

Output of process

- Documents, pictures, accounts, organization charts and reports which aid understanding of the context of the audit and the risks hindering the objectives of the processes being audited (2310).
- The strategy/objectives for the function(s) concerned.
- Information used in assessing the performance of the function(s)
- The full organization chart is in the spreadsheet: *Functions*

Standards for output

- Documents not easily available, or which change with time, should be filed. Examples are organization charts, budgets and accounts.
- Documents may be filed in paper form, or reference made to the location of computer files.
- Lengthy manuals should not be photocopied and filed in this section. Either file a few relevant pages, or obtain a computer version. If the manual is readily available there should be no need to file any copies.

Work plan for achieving output

- At the start of an audit obtain:
 - Organization charts for the departments (functions) concerned
 - Budgets for the departments
 - Any operating manuals
 - Copies of job descriptions and targets
 - Performance data and similar information issued to senior management
- During the audit obtain:
 - Example documents (completed, not blank)
 - Operating instructions people may have prepared for their own use
 - Copies of computer screens
 - Copies of spreadsheets used

Accounts payable

Strategy/Objectives and performance data

Long term strategy over the next three years

To improve efficiency and reduce the number of input clerks by 2

Strategy and Targets for this year (in addition to the objective identified for accounts payable)

- Reduce invoices held pending clearance by purchasing by 50%
- Increase the number of invoices cleared for pay/hour of clerical time by 10%

Performance data

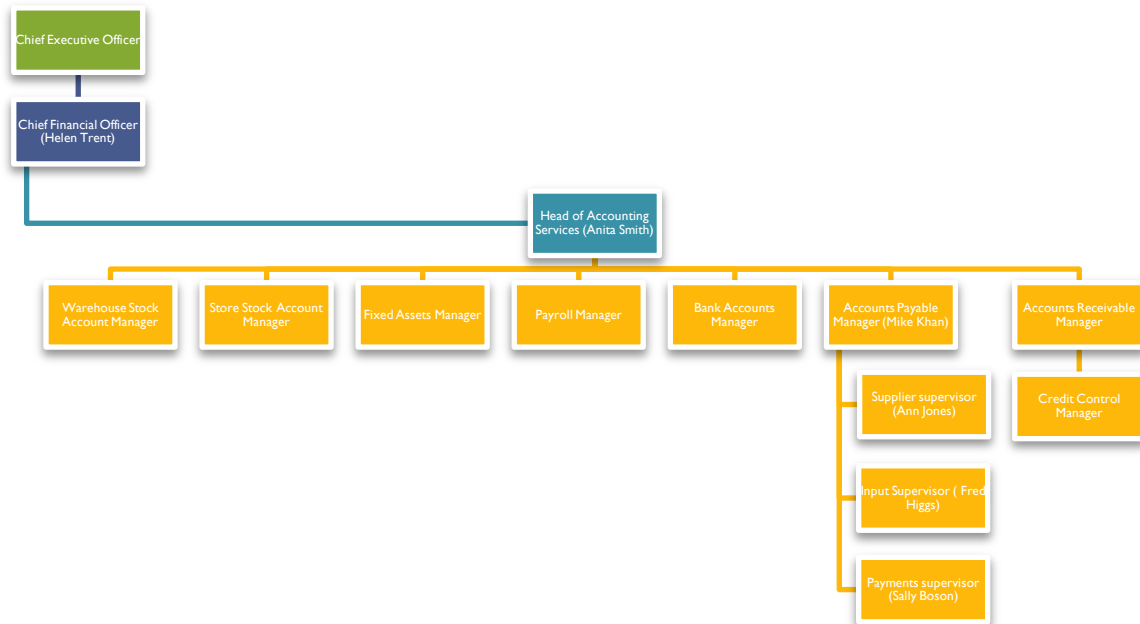
- Invoices held pending clearance by Purchasing
- Payments held
- Duplicate payments made
- Invoices cleared for payment per hour of input clerk time

(Page is blank)

Internal Audit

B Background information

Organization chart - Functions



Extract from the organization chart.

The full version is in the spreadsheet for Book 2

The above version is in the spreadsheet for this book

B Summary of system

Output of process

- A brief summary of the IT systems and processes being used in the area under audit.

Standards for output

- List the main processes involved which deliver the objectives covered by the audit.
- Refer to the processes in the worksheet.

Work plan for achieving output

- Talk to management and IT staff involved with the processes.
- Obtain manuals, including training manuals.
- Attend training courses, if appropriate.

Accounts payable

Summary of system

- The accounts payable accounting system is based on the Oracle Accounts Payable Application. It links with other Oracle Applications such as General Ledger and Purchases.
- Information is available on the internet. Search for 'Oracle accounts payable'
- The Oracle application has the following main processes:
 - Set up
 - Setting up and amending suppliers
 - Entering invoices
 - Entering expense reports and credit cards (not audited)
 - Making payments
 - (Other processes exist, for example for tax accounting)
- Full details are given in the Processes section

B- Process Hierarchy

Output of process

- An overview of the processes relevant to the audit, arranged as a hierarchy.
- The top level(s) of the hierarchy link with the organization's chart (see spreadsheet with book 2)

Worksheet

- Processes

Standards for output

- List the main processes involved which deliver the objectives covered by the audit.
- The detailed processes used to determine risks are included in section F

Work plan for achieving output

- Consider the processes from the first to the last, which are necessary to deliver the objective(s) included in the audit area.

Advice for achieving output

- Use a logical structure, as opposed to the organization's structure which may be incomplete or inefficient. For example it might omit the 'Set strategy' and 'Secure databases' processes.
- Consider using Excel's SmartArt function to draw out the hierarchy.

Accounts payable

- Operate and develop a retail company
 - Provide support
 - Generate transactions
 - Set strategy
 - Pay suppliers the correct amount at the time agreed
 - Establish and operate policies
 - Define strategy
 - Comply with legislation
 - Comply with company policies
 - Establish structure, authority and responsibility
 - Establish control environment
 - Set up and maintain data
 - Set up system
 - Set up standing data
 - Maintain standing data
 - Maintain supplier data
 - Input invoices and credit notes
 - Receive and sort physical mail
 - Receive electronic invoices
 - Process electronic invoices
 - Input invoices with an order
 - Input invoices without an order
 - Generate payment
 - Maintain accounts payable ledger
 - Secure databases
 - Account for transactions
 - Produce reports
 - Support AP processes
 - IT
 - HR
 - Security
 - Monitoring

This page is blank

Insert a file divider after this page

Internal Audit

C Scope



Scope

Section Index C - Scope

Purpose of section C

- This section holds the documents which define the scope of the audit.

Standards for section C

- This section must clearly provide the reader with:
 - The reasons for carrying out the audit.
 - The objectives of the audit, including the opinions to be expressed in the audit report.
 - The processes involved, and not involved, in the audit.
 - Any special considerations to be included in the work.
 - The timing of the work.
 - The personnel involved.

Accounts Payable (205)

Contents	Ref
Draft scope	C1
Memo with draft scope	C4
Final scope	C5
Note with final scope <i>(not included)</i>	C8
Back to File Index	

C - Draft Scope

Output of process

- Document for approval of the scope of the audit by the Chief Audit Executive (2200).

Standards for output

- The document should list (2210,2220):
 - The reasons for the audit.
 - The objectives, risks and key controls (2200, 2201,2210.A1).
 - The work program, which should follow the approved methodology (2220.A1,2240).
 - Factors which define the limits of the audit including processes specifically excluded.
 - Any special considerations.
 - The personnel carrying out the audit, including any special responsibilities (2230).
 - The timing of the audit.
 - The recipients of the scope, draft and final report (although these may change, depending on the issues found by the audit).
- The reasons for the audit should include the objective of the audit, that is, to provide an opinion on the following primary question.
- Is the organization achieving its objectives and will continue to achieve them in the area being audited?

And on two secondary questions:

- Has management established a proper internal control framework? That is, has management: specified their objectives, identified the risks threatening these objectives and established controls which should reduce the risks to acceptable levels?
- Are these controls sufficient and operating to bring the risks to below the risk appetite and ensure the achievement of the related objective?

If the answer to any of the above questions is not 'Yes':

- Is action being taken which will bring the risks to below the risk appetite and ensure the achievement of the objective?
- The scope will be agreed with our 'customers' – although we, the auditors, have the final say! A meeting to discuss the scope is a good opportunity to get everyone, auditors and people affected by the audit, together (if that hasn't been done as part of planning).
- As the audit progresses, we may wish to change the scope. This should be done as soon as possible, in conjunction with those who agreed the original scope and a revised document issued.
- The document should be dated. (Automatic dating should not be used, as it will change when viewed and the actual date of preparation will be lost). The author's name(s) should be included.

Accounts Payable

Reason for the audit

The company's risk analysis has identified risks in the accounts payable processes as significant to its objective of maintaining company profits.

Objective of Internal Audit

The principal aim of Internal Audit is to provide evidence for the Audit Committee to make its annual statement the company is achieving its objectives based on the management of opportunities and risks

The audit will provide opinions on the following primary question:

- Is the organization achieving its objectives and will continue to achieve them in the area being audited?

And on two secondary questions:

- Has management established a proper internal control framework? That is, has management: specified their objectives, identified the risks threatening these objectives and established controls which should reduce the risks to acceptable levels?
- Are these controls sufficient and operating to bring the risks to below the risk appetite and ensure the achievement of the related objective?

If the answer to any of the above two questions is not 'Yes':

- Is action being taken which will bring the risks to below the risk appetite and ensure the achievement of the objective?

The audit report will provide an opinion from each of the 3 (4) above tasks and an overall conclusion on whether the objectives of management are being achieved.

Objectives and risks of the processes being audited

- Level 1 objective: Maintain profit of existing business
- Level 1 risk: Processes do not support the business
- Level 2 objective: Pay suppliers the correct amount at the time agreed
- Level 2 risks and below are detailed in the accompanying Audit 205 spreadsheet.

Work plan for achieving output

- Start the scoping exercise 4-6 weeks before the commencement of fieldwork to allow time for initial discussions and obtaining agreement.
- Understand the context of, and reason for, the audit, by reviewing the audit plan and business process map (2201).
- Understand the objectives, risks and key controls of the processes (2201). As part of this work, obtain risk assessments (the Objectives, Risks and Controls Register -OCRC) carried out by management.
- If the processes being audited are known, or believed, to generate significant errors, include any specific work under “Special Considerations” (2210.A2).
- Define all processes covered, including those at third parties (2220.A1).
- Include any similar or adjacent processes, which are not being audited.
- Consider if significant improvements can be made to the management of risk (2201).

Advice for achieving output

- To develop an effective audit of controls it is essential to have a clear understanding of:
 - What is the objective/function of the processes being audited?
 - What are the circumstances that could threaten the achievement of these objectives (the risks?)
 - What are the necessary controls that manage these risks (2201)?
- The draft scope should be used in initial meetings with auditees to discuss the audit. They should be told that the scope is to be approved.
- If there are likely to be any contentious issues, discuss the draft scope with the CAE.

Audit work plan

The work plan will include the following:

- Assessing the risk maturity of the processes being audited by examining the Objective, Risk and Control Register (ORCR).
- Understanding the detailed processes which deliver the objectives. This will include walk-through tests and observation of processes where appropriate.
- For any processes where we consider objectives, opportunities/risks and controls have not been fully identified; work with management to identify the missing data. (This will be considered consultancy work and may require further internal audit resources)
- Testing some of the key controls, including monitoring controls, which mitigate these risks.
- For each risk form an opinion whether:
 - Objective, risk and controls were identified, evaluated and managed
 - Internal controls, including monitoring controls, reduce risks to acceptable levels
 - Action is being taken to promptly remedy any deficiencies
- Concluding whether those controls actually operating reduce the risks to levels acceptable to the company. Presenting these conclusions to people involved in the processes concerned.
- Agreeing the report with the people directly accountable for the processes audited, before issuing it to those noted on the circulation list below.

The processes examined in the audit will include:

- Personnel's knowledge of their objectives and the decisions they are required to make in order to achieve them
- The setting up and maintenance of supplier data
- Input and approval of invoices.
- Payment of invoices

The audit will not include:

- The audit of data relevant to the AP system, such as account codes, account calendar and foreign currency rates which is held in the General Ledger system. It will include the correct application of this data to transactions.

Special considerations

This section to be completed after discussions on this draft scope.

Timing

Audit work will be carried out during the first two weeks of February. The target date for issuing the final report is 8 March 20X1.

This page is blank

Staffing

The audit will be carried out by Max Davis and Frank Sawyer, supervised by the Chief Audit Executive, Pat Jones.

Circulation list

Name	Department	Scope	Draft report	Final report
	Chief Operations Officer	√		√*
	Merchandise and Purchasing Department Office Managers	√	√	√*
H Trent	Chief Financial Officer	√		√
A Smith	Head of Accounting Services	√	√	√
M Khan	Accounts Payable Manager	√	√	√

*The circulation of reports may change, depending on the issues found.

A summary of all reports is sent to the Chairman of the Audit Committee and external auditors. Both may also view the detailed reports.

M Davis and F Sawyer

18 December 20X0

C – Memo with draft scope

Output of process

- A letter or e-mail accompanying the draft scope and agenda for the meeting which will discuss it.

Standards for output

- The letter may be e-mail or paper.
- The letter should be sent with the draft scope and the agenda for the meeting (see section D).
- If appropriate, send a copy of the relevant sections of the ORCR.

Work plan for achieving output

- Send the letter out with sufficient time for the recipients to read and consider the scope and agenda.

Advice for achieving output

- Don't send out the letter/e-mail so early that the recipients lose/delete it.

Memo/e-mail

Audit of Accounts Payable

To: A Smith	Head of Accounting Services	From: M Davis
M Khan	Accounts Payable Manager	Auditor
		Internal Audit Department
		Head Office
		Date: 18 December 20X0

Draft scope and agenda for our meeting on the 6 January

Please find attached the agenda for our meeting on January 6 at 2:00 pm. in meeting room 3, and the draft scope of the audit together with the objectives and risks extracted from the Objectives, Risks and Controls register, which will form the basis of our discussions

Following this meeting we will issue a final version of the scope, when it has been approved by P Jones.

Regards

M Davis

18 December 20X0

C - Final Scope

Output of process

- A final version of the scope, which acts as an “engagement record” to define the audit in sufficient detail to ensure all objectives are met (2220).

Standards for output

- The scope is approved by the Chief Audit Executive (2240.A1).
- Standards are as for the draft scope.

Work plan for achieving output

- Scope to be agreed, where possible, and issued before fieldwork commences.

Accounts Payable

Reason for the audit

The company's risk analysis has identified risks in the accounts payable processes as significant to its objective of maintaining company profits.

Objective of Internal Audit

The principal aim of Internal Audit is to provide an opinion to the Audit Committee as to whether the risks of the company are being managed to within acceptable levels.

The audit will provide opinions on the following primary question:

- Are the risks to the organization's objectives being managed to acceptable levels?

And on two secondary questions:

- Has management established a proper internal control framework? That is, has management: specified their objectives, identified the risks threatening these objectives and established controls which should reduce the risks to acceptable levels?
- Are these controls sufficient and operating to bring the risks to below the risk appetite and ensure the achievement of the related objective?

If the answer to any of the above two questions is not 'Yes':

- Is action being taken which will bring the risks to below the risk appetite and ensure the achievement of the objective?

The audit report will provide an opinion from each of the 3 (4) above tasks and an overall conclusion on whether the objectives of management are being achieved.

Objectives and risks of the processes being audited

- Level 1 objective: Maintain profit of existing business
- Level 1 risk: Processes do not support the business
- Level 2 objective: Pay suppliers
- Level 2 risks and below are detailed in the accompanying Audit 205 spreadsheet.

This page is blank

Audit work plan

The work plan will include the following:

- Assessing the risk maturity of the processes being audited by examining the Objective, Risk and Control Register (ORCR).
- Understanding the detailed processes which deliver the objectives. This will include walk-through tests and observation of processes where appropriate.
- For any processes where we consider objectives, risks and controls have not been fully identified, work with management to identify the missing data. (This will be considered consultancy work and may require further internal audit resources)
- Testing some of the key controls, including monitoring controls, which mitigate these risks.
- For each risk form an opinion whether:
 - Objective, risk and controls were identified, evaluated and managed
 - Internal controls, including monitoring controls, reduce risks to acceptable levels
 - Action is being taken to promptly remedy any deficiencies
- Concluding whether those controls actually operating reduce the risks to levels acceptable to the company. Presenting these conclusions to people involved in the processes concerned.
- Agreeing the report with the people directly accountable for the processes audited, before issuing it to those noted on the circulation list below.

The processes examined in the audit will include:

- The setting up and maintenance of supplier data
- Input and approval of invoices.
- Payment of invoices

The audit will not include:

- The audit of data relevant to the AP system, such as account codes, account calendar and foreign currency rates which is held in the General Ledger system. It will include the correct application of this data to transactions.
- The audit of payments resulting from company purchasing cards or on-line purchases, which are the subject of separate audits.

Special considerations

The AP manager has asked us to check the clearance of invoice matching queries, since the failure of Merchandising and Purchasing Departments to clear these promptly causes much extra work.

Timing

Audit work will be carried out during the first two weeks of February. The target date for issuing the final report is 8 March 20X1.

This page is blank

Staffing

The audit will be carried out by Max Davis and Frank Sawyer, supervised by the Chief Audit Executive, Pat Jones.

Circulation list

Name	Department	Scope	Draft report	Final report
H Trent	Chief Financial Officer	√		√
A Smith	Head of Accounting Services	√	√	√
M Khan	Accounts Payable Manager	√	√	√

The circulation of reports may change, depending on the issues found. A summary of all reports is sent to the Chairman of the Audit Committee and external auditors. Both may also view the detailed reports.

M Davis and F Sawyer

13 January 20X1

This page is blank



Meeting notes

Section index D – Meeting notes

Purpose of section D

- This section holds notes from meetings up to those involving the draft report, which are filed with the draft or final reports.

Standards for section D

- Notes should generally be filed in chronological order, if paper copies are kept
- The index should show the date of the meeting, and attendees
- The index should refer to the detailed notes, either in the file or as a hyperlink to the word-processed document.

Internal Audit



Section index D – meeting notes

Accounts Payable

Date	Contents	Ref
18-Dec-X0	Agenda for meeting with Head of Accounting Services and AP Manager	D1
6-Jan-X1	Notes from meeting with Head of Accounting Services and AP Manager (6 January)	D2
2-Feb-X1	Notes from the meeting with AP Manager and Supervisors (2 Feb) <i>(not included)</i>	D4
6-Feb-X1	Notes from the meeting with the AP Manager and Head of Accounting Services to update them on progress (6 Feb) <i>(not included)</i>	D7
6-Feb-X1	Notes from the meeting between the Chief Operations Officer, Chief Financial Officer, Head of Accounting Services, CAE and Auditors <i>(not included)</i>	D9
13-Feb-X1	Notes from the meeting to discuss issues found with Chief Operations Officer, some Office Managers, Head of Accounting Services and AP Manager <i>(not included)</i>	D11
	Back to File Index	

D - Agenda

Output of process

- A document, or e-mail, confirming the details of a meeting in order for the attendees to be fully prepared.

Standards for output

- A document or e-mail should be sent before each meeting because:
 - It confirms any phone call or other contacts that a meeting is to be held.
 - It confirms the date and place of meeting, and attendees.
 - It encourages the attendees to do any necessary preparation. If such preparation is essential, state this.
 - It gives the “chairman” of the meeting the opportunity to prepare and, in particular, consider each attendee and the part they will play in the meeting.
- The document shows:
 - The time and place of the meeting.
 - The attendees.
 - A title for the meeting - probably the audit title.
 - The output from the meeting.
 - Specific topics to be covered.

Work plan for achieving output

- Understand the output required from the meeting.
- Book a room and any equipment required.
- Identify people who can contribute to the output, throughout the meeting.
- Take spare agendas, and any documentation required, just in case anyone forgets their copy.
- Close down the meeting with what has been achieved, any action to be taken and by whom.

Advice for achieving output – the meeting

- Managing the meeting
 - Have a chairman – to keep the meeting to the agenda, and ensure everyone has their say.
 - Also have a scribe, if there is much writing to be done (including on flip charts).
 - If you need training on the running of meetings, get it!
 - Consider doing part of the meeting as a presentation.

Accounts Payable

Date & time:	January 6 20X1 2:00 p.m.	Place:	Meeting room 3
Participants:	Anita Smith - Head of Accounting Services Mike Khan - Accounts Payable Manager Max Lewis (Auditor) Frank Sawyer (Auditor)		
Purpose of meeting:	To agree the scope of the audit to be carried out in February (attached)		

Topics

- Introductions
- Why the audit is being done, what processes it will cover and what it will deliver
- Background to the processes being audited – what are the major risks and controls?
- The audit work plan
- Comments about the proposed scope – including any special considerations
- Information available to assist the audit – including risk registers, process maps, budgets and organization charts
- Key contacts for the audit
- Timescale of the audit
- Next steps

Advice for achieving output – the meeting (cont.)

- Introduction
 - Carry out introductions, if necessary
 - Introduce the agenda, with approximate timings for each of the items
- Why the audit is being done, what processes it will cover and what it will deliver
 - Remind attendees of the desired output from the meeting. If the meeting is to agree the draft scope - be clear on the information you require to do this (risks they have identified, process maps they have prepared, key contacts, audit timing, special considerations).
 - Ensure everyone understands why the audit is being done.
 - Stress the audit will not only be looking at risks threatening objectives but the identification of opportunities which will benefit the achievement of objectives.
 - Understand what the attendees want to take away from the meeting - it may not be what you want.
 - Take along an example report to demonstrate what it will look like, who will receive it and what possible opinions there will be.
- Background to the processes
 - This is your opportunity to find out the major risks and controls.
- The audit work plan
 - Provide a copy of the ORCR (although attendees should have one), to demonstrate how the audit will be done.
 - Discuss the work plan; do the attendees agree it should enable a proper opinion to be reached?
- Comments from those involved
 - How do people *feel* about the audit? Worried, thankful, angry? Why do they feel this way?
 - Are there any specific areas the attendees would like us to consider? (But don't be drawn outside the scope, other than for good reasons. Modify the scope if necessary).
- Information available
 - Ask for any information (risk registers, organization charts, and process maps) which may help the audit.
- Key contacts
 - Find out who the key contacts are, any times they are not available.
- Timescale
 - Outline the timetable, asking if it causes any problems and stressing the need to respond promptly to the issue of the draft report.
- Next steps
 - Before closing the meeting, check the agenda to ensure that you have got the output you want.

Accounts Payable

This page is blank

D – Meeting notes

Output of process

- Document showing the output from a meeting (2330).

Standards for output

- The notes should contain the date, time, place of the meeting, attendees and any apologies for absence
- Notes should not generally record all the discussions from the meeting, but only the decisions made, action to be taken, by whom and when.
- The date of the next meeting (if any) should be included.
- Circulate the notes to all attendees after the meeting. If appropriate, ask them to confirm they agree with its contents.

Work plan for achieving output

- Ideally, someone other than the chairman of the meeting should take notes.
- At the end of the meeting, confirm the output from the meeting.

Advice for achieving output

- Write, or type, up the notes immediately after the meeting. If you can, book the meeting room for longer than the duration of the meeting and stay to write up the notes.
- The meetings frequently highlight issues. These should be noted immediately on an issues list (H1) which can later be transferred to the ORCR. This list is referenced to the document giving rise to the issue and the document recording the issue for reporting..

Accounts Payable

Date & time:	January 6 2004 2:00 p.m.	Place:	Meeting room 3
Participants:	Anita Smith - Head of Accounting Services Mike Khan - Accounts Payable Manager Max Lewis (Auditor) Frank Sawyer (Auditor)		
Purpose of meeting:	To agree the scope of the audit to be carried out in February		

Introduction

- We introduced ourselves and gave a brief description of our experience.

Why the audit is being done, what processes it will cover and what it will deliver

- The audit is a routine audit, identified from the company's Objectives, Risks and Controls Register (ORCR) as having high risks.
- The processes to be covered are outlined in the scope.
- Both Anita Smith and Mike Khan were disappointed that we were not including Merchandising and Purchasing Departments in our audit since they constantly failed to deal promptly with invoices not matching due to price differences. This led to constant phone calls and letters from suppliers about late payment. (Noted on issues **H1**) We said that overdue queries would be part of this audit.

Background to the processes

- The major opportunities and risks were as noted in the ORCR and the supplementary ORCR for Accounts Payable.
- Prior to our meeting Anita and Mike had examined the ORCR and concluded that objectives, risks and controls were complete. They liked the inclusion of opportunities provided by decision making since they need to come up with ideas to reduce staffing.
- During our discussion Anita and Mike confirmed that they understood the underlying principles of risk management and appreciated the need for it to be embedded in the procedures of the department. An understanding of risk is included as part of induction training
- Accounts Payable is computerized using the Oracle Financials package. They are reliant on the general ledger system for account codes, foreign currency rates and the financial calendar. .

This page is blank

- We confirmed that other audits would cover payment for on-line purchases from approved suppliers, employee expenses and Company Credit Card Purchases.

The audit work plan

- No specific comments about the audit plan.

Comments from those involved

- Very glad that the audit is to be held and it will give confidence in the processes and staff involved.
- Mike Khan wants a meeting to be held with him and the supervisors before the start of the audit, in order to explain the purpose and requirements of the audit. None of the supervisors have been involved in an audit before and are a little worried.

Information available

- Contact Mike's secretary for organization charts and other information required.

Key contacts

- Initial contact will be with the supervisors for routine queries.
- Mike wishes to be kept informed of audit progress and to be told immediately if we find any major deficiencies.

Timescale

- The timescale was agreed.

Next steps

- We outlined our next steps would be to produce the final scope, get it agreed by the CAE and then send it to Anita and Mike.
- The Anita and Mike confirmed that they would both like to be involved in the close down meeting.
- We confirmed that the CAE would be seeking feedback at the end of the audit.

M Davis and F Sawyer

7 January 20X1

This page is blank

Insert a file divider after this page

Risk Maturity

Section index E – Risk maturity

Purpose of section E

- To show the work carried out to assess the risk maturity of the functions and processes involved in the audit.
- To conclude on the risk maturity of the functions and processes.
- To decide on the audit methodology, based on this conclusion.

Standards for section E

- The questionnaire for risk maturity is a worksheet in the spreadsheet.

Internal Audit



Section E - Risk maturity

Contents	Ref
Part of the test schedule for assessing risk maturity	E1
Back to File Index	

E – Risk maturity assessment

Output of process

- A completed schedule based on appendix N of Book 1 and modified by a checklist in the Guide to ISO 31000:2009 for the functions and processes being audited. Details in Book 1.
- The questionnaire has been amended to include the recognition of opportunities.
- An opinion on the risk maturity of the functions and processes being audited.

Standards for output

- Completion of the schedule, not only for the whole organization but also for each audit, since the standards set for the organization may not necessarily have been carried out by each function.
- The example schedule is only a guide to the controls expected and the tests to be carried out. The aim is to ensure the opinion provided is based on sound evidence and, if necessary, tests may have to be changed to achieve this.
- A completed schedule showing:
 - The controls required within the functions and processes being audited which will deliver the risk framework.
 - Details of the tests carried out to check the proper operation of the controls.
 - Details of the test results, indicating documents examined, and the staff questioned.
- An opinion on the risk maturity attained, against each control.
- An overall opinion on the risk maturity of the area being audited.

Work plan for achieving output

- For each internal control (aim), identify the actual control (if any) which should be in operation by using walkthrough tests, examining manuals and questioning managers and staff.
- Devise a test which will check the correct operation of each control. Carry out the test and note the results on the schedule.
- Come to an opinion on which level of risk maturity the test (or absence of control) proves.
- When all the testing has been carried out, come to an overall opinion on the risk maturity of the functions and processes being audited.

Advice for achieving output

- Use additional documents as necessary to provide further details of the tests and evidence for their operation.

Internal Audit

E1

Section E - Risk maturity

Internal Control (aim)	Control within AP	Audit test	Test result	Risk enabled	Risk managed
The organization's objectives are defined	There is an annual meeting of senior management to hear and discuss the organization's objectives for the next year. The Head of Accounting Services attends this meeting before having a meeting with her Managers.	Checked the organization's objectives have been determined by the board and have been communicated to all staff, by examining the agendas from all meetings.	Agendas for the meetings, and notes distributed after the meetings show all the objectives	YES	
The organization's objectives are defined	The Head of Accounting Services and AP Manager meet to determine the objectives specifically for AP. The results of this meeting are communicated to all staff	Check other objectives and targets are consistent with the organization's objectives.	Agendas for the meetings, and notes distributed after the meetings show all the objectives	YES	
Management have been trained to understand what risks are, and their responsibility for them.	Staff have had risk awareness training	Interviewed managers to confirm their understanding of risk and the extent to which they manage it.	Head of Accounting Services and AP Manager clearly understood risks and their responsibility for them (Meeting date: 6 Jan 20X1)		YES
A scoring system for assessing risks has been defined.	Risk Management have issued standards for scoring risks, which is available on the company intranet	Checked the scoring system has been approved, communicated and is used.	The standards are on the intranet	YES	

The complete risk maturity assessment is in the spreadsheet

This page is blank

Insert a file divider after this page

Internal Audit

F Objectives, Risks and Controls Register



Section index F - Objectives, Risks and Controls Register (ORCR)

Purpose of section F

- Record the objectives relating to the audit, the opportunities benefiting them, the risks threatening them and the controls responding to the opportunities/risks, which will be tested by the audit.
- Record the processes which deliver the objectives (from section B).
- Record the functions which operate those processes (from section B).
- Assess the inherent risk scores.
- Conclude on whether objectives, opportunities/risks and controls were identified, evaluated and managed.

Associated worksheets

- ORCR Audit (Objectives, risks, controls register for the audit area)
- Key to columns in ORCR
- Flowcharts as necessary.

Standards for section F

- The ORCR to be completed up to the inherent risk scores and controls.
- Relevant flowcharts used to check/determine risks and controls should be included as worksheets.
- The contents of section F will be determined by the level of risk maturity found.

Accounts Payable

Contents	Ref
Determination of risks and controls	F1
Process - input invoices	F2
“Walkthrough” test details (<i>Not included</i>)	N/A
Back to File Index	

F - Determination of risks and controls

Output of process

- The ORCR audit completed for objectives, opportunities/risks and controls, including inherent risks scores.

Standards for output

- The action required on risks and controls is outlined in the table below:

	Characteristics	Internal audit action -risks	Internal audit action - controls
Risk enabled	Risk management and internal controls fully embedded into the operations	Audit risk management processes and use management assessment of risk as appropriate	Assume controls are as stated in the ORCR. Check that they are an adequate response to the risks. Test a small selection of controls over high inherent risks
Risk managed	Enterprise approach to risk management developed and communicated	Audit risk management processes and use management assessment of risk as appropriate	Assume controls are as stated in the ORCR. Check that they are an adequate response to the risks. Test controls over high inherent risks
Risk defined	Strategy and policies in place and communicated. Risk appetite defined	Facilitate risk management/liaise with risk management and use management assessment of risk where appropriate	Where controls are included in the ORCR check that they are an adequate response to the risks .Facilitate the determination of controls required to manage other risks. Test controls over high and medium inherent risks
Risk aware	Scattered silo based approach to risk management	Promote enterprise-wide approach to risk management and rely on audit risk assessment	Determine the risks and controls necessary by holding workshops with appropriate managers and staff. Check controls over all risks considered unacceptable
Risk naïve	No formal approach developed for risk management	Promote risk management and rely on audit risk assessment	Determine the risks and controls necessary by holding workshops with appropriate managers and staff, otherwise use internal audit's assessment. Use specialists if necessary. Check controls over all risks considered unacceptable.

Internal Audit

F1

F - ORCR

Objectives, Risks and Controls Register (ORCR) (Extract from spreadsheet).

L3 Objectives	L3 Risks	I R C	I R L	I R S	Internal control	Function	Internal control owner	Process
Data being used to update suppliers using orders is complete and accurate	Supplier data is incorrect	3	5	1 5	Assistant buyer is responsible for obtaining correct standing data from suppliers, such as bank account, payment terms and address and completing the input form	Merchandising or Purchasing	Assistant Buyer	Accounts Payable - maintain supplier data
Data being used to update suppliers using orders is complete and accurate	Supplier data is input incorrectly	3	5	1 5	Assistant buyer is responsible for inputting data correctly from the input form	Merchandising or Purchasing	Buyer	Accounts Payable - maintain supplier data
Data being used to update suppliers using orders is complete and accurate	Data supplied is incomplete or not supplied	3	5	1 5	System checks all required data fields on system are completed	Merchandising or Purchasing	Buyer	Accounts Payable - maintain supplier data
Data being used to update suppliers using orders is complete and accurate	Data supplied is incomplete or not supplied	3	5	1 5	System checks all required data fields on system are completed	Merchandising or Purchasing	Buyer	Accounts Payable - maintain supplier data

Standards for output (cont)

- At the end of this stage of the audit, the ORCR should be complete in the following columns (2300):
 - Objectives of the area being audited.
 - Opportunities/Risks benefiting/threatening those objectives.
 - Inherent risk scores.
 - Controls responding to the risks (including monitoring controls).
 - The function affected by a risk and the control owners.
 - The process delivering the control.
 - A conclusion on management's determination, assessment and response to the risk.
- Certain opportunities/risks should always be considered, depending on the scope of the audit (2110.A2 and 2120.A1)
 - Opportunities from the decision making process.
 - Reliability and integrity of financial and operational information.
 - Effectiveness and efficiency of operations, including competencies and contingency.
 - Safeguarding of assets, including fraud.
 - Compliance with laws, regulations, and contracts.
- The list of risks (ORCR) should be reviewed by the CAE, or another, suitably skilled, person (2240.A1, 2340).
- Any issues found, for example incorrect scoring of inherent risks, should be included on the Issues schedule (section H).

Work plan for achieving output

- The work necessary to produce the ORCR will depend on the risk maturity determined in section E and is outlined in the table on the previous page.
- It may be useful to draw up a mindmap of the objectives/risks/controls/tests. An example is shown in the Excel workbook (F- Mindmap).
- The work will vary from:
 - Examining the ORCR to check it is complete and the scoring of inherent risks is consistent with the organization's standards.
 - TO
 - Compiling the ORCR from a blank spreadsheet workbook.

Internal Audit

F - ORCR

F1

This page is blank

Work plan for achieving output (cont)

- Use flowcharts and walkthrough tests to determine risks arising from the processes, such as input risks - see the next section (F -Risks in processes)
- The methods used to compile an ORCR for an audit are similar to those to compile an ORCR for an organization, which is detailed in Books 1 and 2
 - Extract any objectives, opportunities/risks and controls from the organizations high-level ORCR, if available
 - Confirm the objective(s) with management, including those specific to the department include in section B.
 - Carry out risk workshops to identify the risks.
 - Consider the responses required to the risks, including internal controls
 - Document the processes in use and determine any additional risks arising from them.
 - Score the risks (see 'Scoring Risks' worksheet).
 - Match the responses required to the risks with the internal controls actually in place. Note any risks with inadequate responses.
 - Test the internal controls actually in place (section G).
- Risks can be determined by several means (2310).
 - ORCRs from the departments involved, if available.
 - Risk workshops with people from the departments involved.
 - The auditor using their experience and “common sense”.
 - “Brainstorming” meetings with colleagues.
 - External sources such as web sites, books and magazines covering the subjects involved.

Advice for achieving output

- Even if the risk maturity is considered to be good
 - Be alert to the significant risks that might affect objectives, operations, or resources. However, bear in mind that assurance procedures alone do not guarantee that all significant risks will be identified (1220.A3).
 - Speak to people in the business about their risks. They understand them and it will involve them in the audit and get better “buy-in” to your conclusions.
- It will only be possible to assess residual risk levels after the controls have been determined (next stage).
- Scoring the consequence and likelihood of inherent risks is not easy but remember it doesn't have to be highly accurate; the aim is to assess the need for a control to mitigate the risk.

Internal Audit

F - ORCR

F1

This page is blank

F - Risks in processes

Output of process

- Flowcharts whose aim is to highlight the risks threatening the processes being audited.
- They provide details about the inputs, outputs and processes which achieve the objectives of the area being audited.
- Risks from these flowcharts are checked to the ORCR Audit to ensure they have been included.

Standards for output

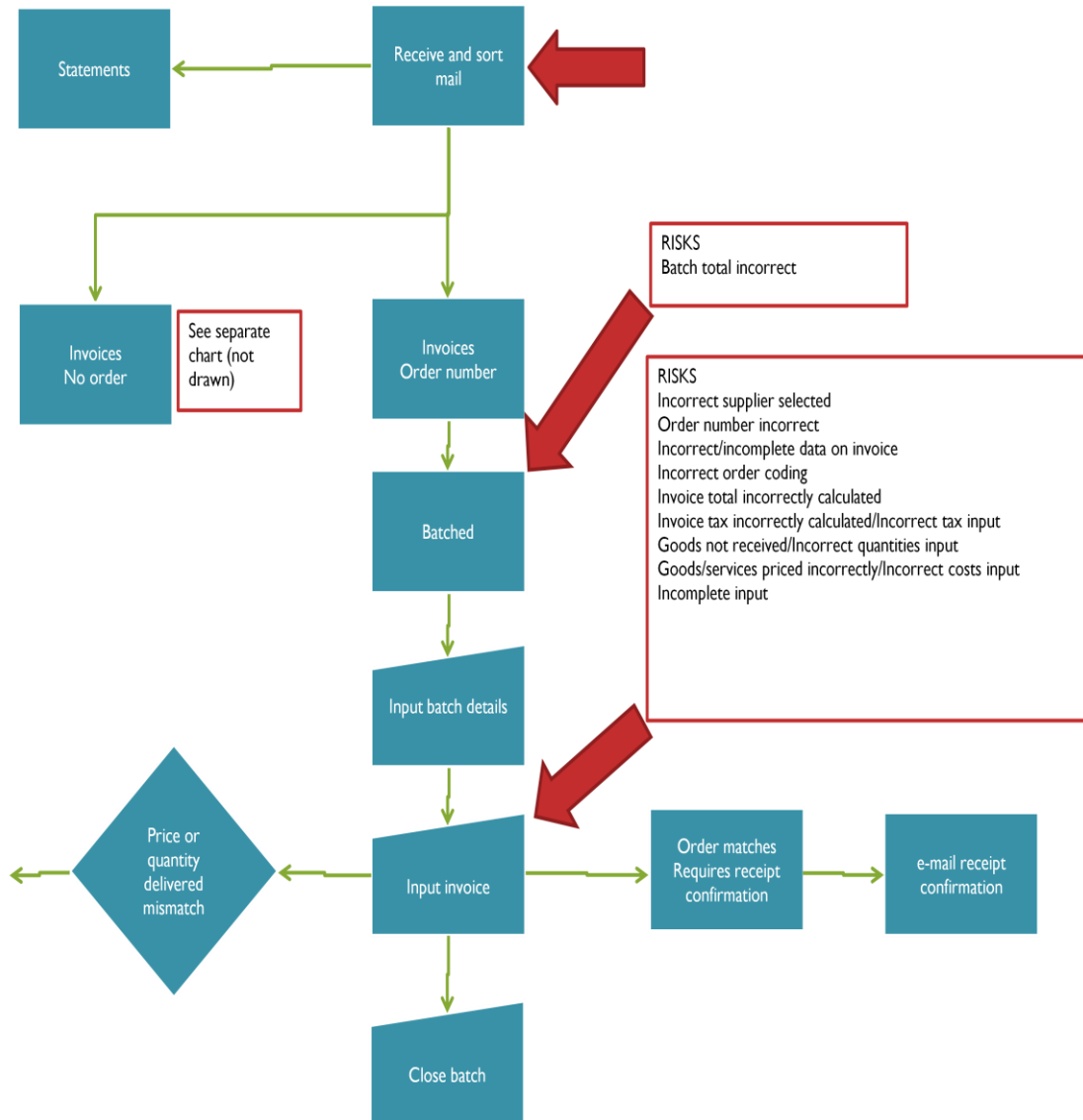
- The detailed process maps should link with process hierarchy map (section B) map, which links to the organization's overall process map, thus ensuring an audit trail from the highest to the lowest level processes.
- The only processes which should be mapped are those where the audit is intended to provide an opinion on the controls mitigating the risks which threaten the processes.
- If the processes followed are unclear and/or the objectives are not those of the company an issue should be raised (2120.A2).
- The processes recorded should be reviewed to ensure they are in accordance with the objectives of the company (2120.A3).
- The size and complexity of any map should be minimized. If necessary, several simple maps should be drawn to achieve this. If necessary have a hierarchy of maps, with processes in overview maps being referenced to greater detail.
- All maps should be cross referenced to show how they fit together.
- Risks from the processes should be included beside the map, as illustrated.

Work plan for achieving output

- Obtain details of the high level processes (section B).
- Obtain the organization chart(s) for the departments who should be operating the processes.
- Meet with the people operating the processes, drawing rough copies of the maps in the meeting and determine some of the risks associated with the processes.
- Draw the maps, preferably using graphics software, or the drawing tools in Excel, with the risks noted alongside. (See example).
- Process maps can be confirmed by following a representative sample of transactions through the processes, known as a “walk through test”. This involves selecting documents at the start of a process (for example, a requisition) and following it through all the stages (order, receipt, supplier invoice, payment). Such a test should be documented.
- Amend the high level process map if necessary.
- Determine the risks arising from the processes - see example opposite.

Accounts Payable

Extract from spreadsheet - worksheet 'Input Invoices'.



Advice for achieving output

- There is no simple answer as to how to map processes but remember, the process map is not a document flow chart, intended to show every document and check in the process, but one which enables the risks to be determined.
- Drawing the flowchart in a logical order noting:
 - Processes which should be present to achieve the objectives efficiently, but which are missing.
 - Processes which don't seem to be necessary.

Note these details on the Issues schedule (section H)

- Risks result from having objectives and most risks should therefore be included in the ORCR. However, where complex processes are involved not all risks may have been identified and the mapping of the detailed processes may highlight these. So, although there is the objective that, 'Invoices with an order number: Invoice and credit note transaction data being used to update balances is relevant, complete, accurate, timely and complies with regulations'. The risk to this objective 'that the invoice may be entered against the wrong supplier' may not be identified. In this case the auditor should notify the appropriate manager to update the AP ORCR.
- In order to be get ideas of the risks involved, arrange a meeting with other auditors to “brainstorm” what risks might exist. You can keep this list of risks in your “back pocket” to help as a prompt when asking management about risks.
- The task of mapping processes frequently highlights issues, such as missing controls. These should be noted immediately on the Issues list (section H) which can later be transferred to the ORCR.
- The detailed processes and risks may not agree exactly with the scope, since that was only an initial evaluation.

Internal Audit

F - ORCR

F2

This page is blank

F Opinion

Output of process

- The ORCR with opinions against all risks stating one of three opinions for **'Has Management has established a proper control framework?'**
- The combination of these opinions is included in the report summary under, 'Has management specified all objectives; identified and analyzed all risks above the risk appetite and developed adequate responses to those risks which should reduce them to acceptable levels?' - **Yes/ Yes, with exceptions/No.**

Standards for output

- Guidance on the opinion is below:

Opinion on	Has management established a proper control framework? That is, has management: specified their objectives, identified the risks threatening these objectives and established controls which should reduce the risks to acceptable levels?	Opinion:	Report as:
Definition	Thorough processes have been used with the result that necessary controls to risks have been established. The objective will be achieved if the controls are operating.	YES	No deficiency
	Processes have been used, but there are some deficiencies which are not judged sufficient to prevent the achievement of the objective.	YES WITH EXCEPTIONS	Deficiency
	Inadequate, or no, processes have been used and, it is probable that the objective will not be, OR is not being achieved	NO	Major deficiency

- Each risk should have an opinion
- The overall opinion will be built up from these individual opinions.

Work plan for achieving output

- The work plan will depend on the risk maturity of the organization. There should be few deficiencies, if any, for risk enabled and risk managed organizations but there will be an increasing number as the risk maturity decreases. See the working papers example with Book 1.

Internal Audit

F - ORCR

F2

This page is blank

Work plan for achieving output (cont)

- A thorough understanding of the processes is essential to identify the risks and therefore required controls. This part of the work is almost identical to 'systems' auditing.

Advice for achieving output

- Don't spend too long worrying about the opinion on every risk. Remember, you are trying to come to an overall conclusion about the quality of the risk management framework. One opinion is unlikely to make a difference.

Internal Audit

F - ORCR

F2

This page is blank

This page is blank

Insert a file divider after this page

Tests and residual risks

Section index G – Tests and residual risks

Purpose of section G

- This section contains:
 - Details of the tests that check the proper operation of controls, where there is insufficient space on the spreadsheet. *(Not complete in this example)*
 - Entering the opinions on each residual risk in the ORCR

Standards for section G

- The details of tests should be included, probably as word processed documents linked to a sheet in the workbook (G - Tests)
- The ORCR should clearly show, for each risk:
 - The control(s) mitigating each risk.
 - The tests carried out to check the controls are operating.
 - The residual risk score.
 - An opinion as to whether each risk is being reduced to an acceptable level *(2120.A1)*.
 - If a deficiency exists, the number of that deficiency on schedule H.

Internal Audit

G Tests and residual risks



Accounts Payable

Contents	Ref
Test1 – Invoices with no order	G1
Test 2 - Unmatched invoices	G4
<i>Other tests are not included in this example</i>	
Objectives, Risks and Control Register - tests and results extract	G7
Back to File Index	

G - Testing of controls

Output of process

- The ORCR with details of tests carried out to assess whether the controls (direct and monitoring) are sufficient and operating in order to reduce the risks to below the risk appetite. 'Below the risk appetite = the level of risk after the control is applied is considered acceptable by the board)
- Where test details cannot easily be recorded on the ORCR, a schedule detailing the test carried out and conclusions should be written (see examples opposite).

Standards for output

- In Risk Defined, Risk Aware and Risk Naïve organizations, the proper operation of most controls should be tested.
- In Risk Enabled and Risk Managed organizations, the auditor will need to make a judgment of which controls to test. This can be based on:
 - Requests from management during the scope and other meetings.
 - Comments and requests from operating staff.
 - Issues found during the assessment of risk maturity or documenting the risks and processes.
 - The control score (=inherent risk score less residual risk score), which gives an indication of the importance of the control.
 - Auditor unease about any areas, whether there is justification or not! (Follow your instincts and don't let the original scope stop you).
- If the test is simple and the results show the risk is being controlled to within the risk appetite, details need only be recorded on the ORCR.
- Tests should be fully documented to the extent that they could be re-performed on the original documentation.
- The test documentation should state:
 - Controls being tested
 - Method of testing, including sample size, if appropriate
 - Results
 - The cause of any deficiencies found.
 - Options for correcting the deficiencies in order to reduce the residual risk to below the risk appetite.
 - Opinion on the control (see below for options)
- Evidence required to support issues found should be scanned/copied and attached to the test documentation.

Accounts Payable

Objective (Level 3), Risk and Control

Invoices without an order: Invoice and credit note transaction data being used to update balances is relevant, complete, accurate, timely and complies with regulations

No.	Risk	Primary Control	Monitoring
95	Excessive prices are paid to untrustworthy suppliers.	Computer warning if the account code is one where an order is required (e.g. Goods for resale, capital items, expense items ordered by Purchasing)	Exception report produced of invoices processed with no order number

Method of testing

Primary control: Observed input of invoices with no order numbers. Asked input staff about the number of warnings.

Monitoring control: Visited Merchandising and Purchasing Departments to investigate the checking of the report of invoices with no order.

Results of tests

Since suppliers are instructed to obtain orders before supplying goods or services, most invoices refer to an order and there will therefore have been a verification of the supplier by a purchasing department and negotiation on prices. There are very few batches of invoices without order numbers and these are mainly for lawyers providing specialist advice to the company's legal department. All of these invoices are approved by the Chief Legal Officer and the total spend on these services is closely monitored by Management Accounts to prevent any staff submitting false invoices and approving them. In addition, there is a list of approved lawyers.

However, one of the batches examined (number 12/02) contained an invoice from a consultancy company for design work and competitor reviews. It was noted:

- The invoice from, JB Associates, had been correctly approved by the Head of Food Merchandising (Jim Higson). The invoice was addressed to Mr. J Higson at the company's address.
- The invoice amount (\$14,500) was correctly coded to the cost center *Food* Expense code *Consultancy*. The budget holder of this cost center is Jim Higson.
- If the invoice had been over \$15,000 it would have to have been approved by the Chief Operations Officer, since it had no order and therefore no prior approval.

Standards for output (cont)

- An opinion should be expressed on the results of each test -

YES	YES, EXCEPT	NO
<p>The control is sufficient and operating to bring the risk to below the risk appetite. (although some action may be required – note in “Supplementary issues”.)</p> <p>No more monitoring is necessary than is done at present</p> <p>The objective is being achieved.</p>	<p>The control is sufficient and operating to reduce the risk. However, the risk is not below the risk appetite but is not judged sufficient to prevent the achievement of the objective.</p> <p>Some additional monitoring may be required (see the report for details)</p>	<p>The control is not sufficient and/or is not operating to bring risks to below the risk appetite. It is probable that the objective will not be, OR is not being achieved.</p> <p>Major improvements are required to the monitoring of controls</p>
No deficiency	Deficiency	Major deficiency

Work plan for achieving output

- The methods of testing to be used are part of normal internal auditing and will depend on the circumstances, so detailed advice is not being given in this manual.
- If possible combine several controls into one test to improve efficiency.

Advice for achieving output

- Use computer aided audit techniques (CAATs) to improve the sample tested.
- The purpose of tests is to demonstrate whether controls are operating properly. They are not to find errors, which should be detected by management.
- Where deficiencies are found, discuss these with the staff directly involved as soon as possible. If fraud could be involved, follow defined procedures or, if these do not exist, talk to no one except the Chief Audit Executive
- Where you have obtained “anecdotal” evidence of risks not being properly controlled, try and obtain evidence through testing. If you cannot, obtain agreement as to how it is best reported, if at all
- You should carry out sufficient testing in order to reach a conclusion about the effectiveness of the control tested. The purpose of the test is not to find mistakes - that is management’s job.
- The amount of testing of a control should be related to the importance of the risk which the control is mitigating. So don’t spend much time testing controls over low risks.

G Test 1 Invoices with no order

We decided to carry out further work:

- The monitoring control should be a report of all invoices processed without an order, checked by the appropriate buying department. We could not find any evidence of this report being produced and checked. Only one of the office managers, who distributed such reports, could remember the report and she said it had been 'discontinued by IT'.
- There was no clearly defined responsibility for checking such a report.
- We examined the expense account codes for the Food cost center, checking for the supplier. We only found JB Associates' invoices in the Consultancy expense account.
- We used the services of IT auditor Pete Cook to write a CAAT (computer assisted audit technique) report to extract all invoices with no associated order number back to 1 January 20X0. This report showed:
 - 20 invoices for legal department totaling \$126,340
 - 46 invoices for JB Associates totaling \$209,423.
 - 126 other invoices, all below \$300 value.
- We examined the invoices paid to JB Associates. All were addressed to Mr. J Higson and all approved by him. None were over \$15,000 in value.
- Discreet enquiries within the Food Merchandising Department indicated that competitor reports had been received for the amount paid, but with no guarantee that the company had obtained value for money.

At this point we presented our findings to the CAE, who has discussed the matter with the Chief Financial Officer and Chief Operating Officer. They have instigated a special investigation, separate from this audit. The CEO and Chairman of the Audit Committee have also been notified.

Cause of deficiency

The underlying cause of this deficiency is the failure to define the responsibility for checking the report listing invoices with no order.

.This page is blank

Internal Audit

G3

G Test 1 Invoices with no order

Action

The Director of Operations has instigated the following action, after discussion with the CAE:

- Suspension of J Higson pending results from the special investigation.
- All further work from JB Associates cancelled.
- No JB Associates invoices to be paid.
- The director will approve all invoices with no order until the investigation is complete. A system will then be put in place to ensure division of responsibility for approving these invoices.
- The director will approve a monthly report of all invoices processed without an order.

The results from the special investigation will be considered separately.

Opinions

No.	Risk	Control	Opinion on control
95	Excessive prices are paid to untrustworthy suppliers.	Computer warning if the account code is one where an order is required (e.g. Goods for resale, capital items, expense items ordered by Purchasing)	NO. There are major deficiencies in controls over invoice approval such that the risk, is above the risk appetite of the company. Major Deficiency (H4)

This page is blank

Accounts Payable

Objective (Level 3), Risk and Control

Invoices with an order number: Invoice and credit note transaction data being used to update balances is relevant, complete, accurate, timely and complies with regulations.

There is a departmental objective to reduce staff numbers by improving efficiency

No.	Opportunity/Risk	Primary Control	Monitoring
86	Goods/services priced incorrectly/Incorrect costs input	Invoice costs matched with purchase order to confirm correct price and coding	Variance report produced showing difference between total ordered cost and total cost paid
87	Invoice payment delayed if queries from mismatching not promptly cleared	A report is available on screen which buyers should regularly access to clear queries, either by agreeing the invoice price or by requesting a credit note.	A monthly paper report is produced for each buyer and sent to them by Accounts Payable
88	Payment on time would reduce supplier queries		

Method of testing

Primary controls:

- Confirmed that the majority of invoices result from goods and services ordered and therefore invoices must be matched with orders for costs. See test 1 for further details of invoices with no orders.
- Examined 'Invoices failing match' report for January 20X1 to ensure none are outstanding for unreasonable periods. Failure to clear them quickly causes additional costs in the AP department and may result in invoices being overridden to clear them, with the risk that excessive costs are charged.

Monitoring control: Checked that Office managers in the purchasing departments distribute reports of variances to senior buyers and obtain explanations

Results of tests

Invoices for goods are input into the system and are matched (automatically or manually) with receipt details (for quantity) and order (for price). Invoices may fail to match with quantities received or prices on the purchase order. Invoices failing to clear due to a mismatch with quantities received usually clear automatically when the goods arrive and are input into the system.

G – Opinions (see G7)

Output of process

- The ORCR completed up to the internal control opinion column.
- The ORCR with an opinion against all risks stating one of three opinions for **'Do internal controls, including monitoring controls, reduce the risk to acceptable levels?'**
- The combination of these opinions is included in the report summary under, 'Are controls (including monitoring controls) sufficient and operating to reduce all risks to acceptable levels?' - **Yes/ Yes, with exceptions/No.**

Standards for output

- The definition for the opinions are below:

Opinion on	Are these controls sufficient and operating to bring the risk to below the risk appetite and ensure the achievement of the related objective?	Opinion:	Report as:
Definition	Controls are sufficient and are operating to bring the risk to below the risk appetite. (although some action may be required – note in “Supplementary issues”.) No more monitoring is necessary than is done at present. The objective is being achieved.	YES	No deficiency
	The risks is not below the risk appetite but is not judged sufficient to prevent the achievement of the objective. Some additional monitoring may be required (see the report for details)	YES WITH EXCEPTIONS	Deficiency
	Controls are not sufficient and/or are not operating to the risk to below the risk appetite. It is probable that the objective will not be, OR is not being achieved. Major improvements are required to the monitoring of controls	NO	Major deficiency

- When the results from all tests are known, the final assessment of residual risks should be made.
- The ORCR should be reviewed by an audit manager.
- Mitigating controls should be identified for each of the risks determined in the previous process and entered in the “Control” column.

G Test 2 Unmatched invoices

Invoices failing to match due to price differences have to be cleared by:

- The receipt of a credit note when the price/item on the invoice is incorrect.
- The acceptance of the invoice price by the buyer when the order price is incorrect. This is the usual reason which arises from a failure by purchasing to update item prices, resulting in an order being issued with incorrect prices.

A report is available on screen which buyers should regularly access to clear queries, either by agreeing the invoice price or by requesting a credit note. A monthly paper report is produced for each buyer and sent to them by Accounts Payable. To monitor the excess paid over the order cost, a variance report is produced against each buyer showing the difference, by invoice in supplier order, of total invoice cost against order cost.

We found the following in our enquiries:

- In the Food and Beverage Merchandise Departments and the Expense Purchasing Department 27 invoices (Value \$350,457) were not cleared for six months. (Copy of report attached). As a result suppliers continually contact Accounts Payable, who have to spend a considerable amount of time answering queries and referring the suppliers to the appropriate buyers.
- In trying to determine the reason for the failure to clear invoices, of the six buyers with long outstanding queries, four said they had received no training in clearing queries. The other two said they had received training but had no time to sort out problems.
- The buyers and office managers in the departments concerned stated that the main reason for so many queries arising was the failure to update prices on the computer when they changed. No-one seemed sure why the delay occurred but lack of training was cited by some buyers. As a result the order was issued at the incorrect cost. Suppliers accepted orders without checking the cost and invoiced at the cost on the delivery date. We checked the 27 invoices overdue for more than 6 months. All the invoices prices were correct. The order prices had not been updated when new prices were agreed with the supplier.
- In order to reduce the number of supplier phone calls, and in some cases ensure delivery of important goods, the AP Supervisor was overriding the query hold to pass invoices for payment, with the approval of the AP manager.
- Buying Departments didn't look at the variance report.

Cause of deficiency

- Failure to update prices promptly on the computer, possibly due to lack of training.
- Lack of training was also the cause of failures to clear queries and check the variance reports.

Standards for output (cont)

- Action taken by management to ensure the continued operation of controls, especially key controls should be noted in the “Monitoring” column.
- The control should be specific - what is done, by whom (job title), how often (2330).
- Test conclusions should be noted on the ORCR, with a reference to the test schedule.
- Residual risk scores for consequence and likelihood are based on the risks as mitigated by those controls which testing has shown operate properly. The scoring is the same as for inherent risks.
- Conclusions should be included against each risk. The criteria are noted above. It will probably not be possible to conclude on the action to be taken, and monitoring, until after the deficiencies have been discussed. A deficiency should be referenced the deficiency forms (section H) when they are drawn up. The example on G7 will show an 'x' as the number until it is known.
- A deficiency should be referenced to the final report to confirm its inclusion. If subsequent discussions result in the issue being omitted from the report, a reference should be made to the document which notes the reasons.

Work plan for achieving output

- Ask about controls during the initial discussions to determine the process maps and risks.
- Allocate these controls to the risks they mitigate.
- Add the details about controls, and monitoring, from the walkthrough tests. Score the residual risks, where possible – the control score (inherent risk score minus residual risk score) will automatically be calculated.
- Carry out tests on the key controls.
- Where the control score exceeds about 15, implying a key control, ensure that testing has been thorough. After all tests have been carried out, re-score the residual risks.
- Input the deficiencies (weaknesses) found.
- Decide on the opinions you are able to come to, at this stage.

Action

Initial action:

- Office Managers will improve the training of buyers to include the clearance of queries and prompt update of supplier prices.
- Office Managers will check the variance reports for unusual items and check these with the appropriate buyers
- Accounts Payable will override the matching holds on any invoices:
 - held for more than 10 working days
 - with queries where the increase in invoiced price is less than 5% of the order price
 - where buyers have not issued instructions to hold, pending a credit note.

These deficiencies will also be discussed with the Director of Operations.

Opinions

No.	Risk	Primary Control	Opinion on control
86	Goods/services priced incorrectly/Incorrect costs input	Invoice costs matched with purchase order to confirm correct price and coding	YES, WITH EXEPTIONS. Most invoices have orders and are therefore checked against the order price for correctness. When the order price does not match, the queries are not being cleared promptly and may be overridden. We do not believe this prevents the achievement of the objective but does hinder it Noted as a Deficiency (H5)
87	Invoice payment delayed if queries from mismatching not promptly cleared	A report is available on screen which buyers should regularly access to clear queries, either by agreeing the invoice price or by requesting a credit note.	NO. There are material deficiencies in the processes to clear unmatched invoices. As a result suppliers are being paid late, with possible loss of discount and, in some cases suppliers have stopped deliveries. The variance reports are not being checked, with the result that excessive prices may be paid. Major Deficiency (H6)
88	Payment on time would reduce supplier queries		NO. The opportunity to achieve the objective of reducing staff numbers is being hindered. (H7)

Action on risks and opportunity: YES

Advice for achieving output

- Scoring the consequence and likelihood of residual risks is not easy but it does have to be reasonably accurate, since the aim is to decide whether the risks are sufficiently mitigated by controls. This score will help you decide on the overall conclusion for your report. Don't get obsessed by the scores though. The crunch question is, "Are you prepared to put your name against the conclusions in the final report?"
- Some controls will only reduce the likelihood of the risk occurring. In other words, if the risk occurs, due to a failure of the control, the consequence will be the same as if the control didn't exist. A control which reduces consequence, as opposed to likelihood, is insurance. In our example, a control which calls in another aid agency to deliver food would reduce the consequence score.
- When assessing the residual risk, *all* controls mitigating it are taken into account thus a score and conclusion is given to each *risk* depending on all the controls mitigating it.
- The grading of a risk with a score of 5 (that is one with a high likelihood or consequence and low consequence or likelihood) is difficult. In practice, it may not be possible to mitigate and it has to be accepted (green). If there are cost-effective controls which can mitigate it, then it is considered a "supplementary issue" in the report.

Internal Audit

G7

G ORCR with tests and results (extract)

Accounts Payable

L3 Risks	Internal control	Test of internal controls	Result	Control opinion
Incorrect supplier selected on input	Input clerk checks name on screen against name on invoice	Observed input of invoices with no order numbers. Asked input staff about danger of selecting wrong supplier.	EXCEPTION. There is a danger that an incorrect supplier could be selected, although this would only be for invoices for lawyers. Any other invoices result in a warning message that the invoice should have an order number.	EXCEPTION (Deficiency x)
Incorrect/incomplete data on invoice	Supplier is expected to ensure invoice has all the correct data. If any is found to be missing during the input process the invoice is returned to the supplier for correction	Check that policies state that data should only be input from properly approved documents (some tax authorities require external documents with a tax number)	YES. Checked AP policy and procedures manual. It clearly states that the only documents input should be properly approved original documents from the supplier. The manual is used for training.	YES
Account coding for invoice is incorrect	The invoice is coded by the authorizing manager	Check invoices are coded by knowledgeable staff using published guidelines	YES. Spoke to Legal Department accounts manager. Legal invoices are coded by the authorizing manager and checked by the accounts manager. Checked coding of invoices for January 20X1. All OK.	YES
Excessive prices are paid to untrustworthy suppliers.	Computer warning if the account code is one where an order is required (e.g. Goods for resale, capital items, expense items ordered by Purchasing)	Observed input of invoices with no order numbers. Asked input staff about the number of warnings.	NO Found invoices with no order number, approved by the manager who had required the service. See test for details	NO (Deficiency x)

Insert a file divider after this page

Deficiencies

Section index H – Deficiencies

Purpose of section H

- This section holds documents used for two purposes:
 - Noting possible deficiencies as they arise, in order to follow them up during the course of the audit.
 - Noting down deficiencies for formal discussion, where we consider that the risks are not being properly mitigated by operating controls

Standards for section H

- The referencing of documents in this section is very important. It must be possible to see where a potential deficiency arose (meeting, test) and how it was resolved.

Internal Audit

Section index H - Deficiencies



Accounts payable

Contents	Ref
Potential deficiencies	H1
Deficiencies for discussion	H2
Back to File Index	

H - Potential deficiencies identified

Output of process

A list of deficiencies, made as they arise, with action taken to resolve them, or a reference to further work.

Standards for output

- The source of the deficiency (for example, a meeting or phone call) should be noted, although there does not necessarily need to be a formal record of the source.
- How the deficiency was resolved must be completed before the final deficiency list is discussed at the close down meeting.
- Where the deficiency was not resolved, a reference should be included to the document which carries it forward.

Work plan for achieving output

- The document is intended to be used as soon as a potential deficiency arises, so it can't be forgotten. It is therefore always close by the auditors, and hand-written or typed into a tablet/mobile (cell) phone.
- Resolve deficiencies as soon as possible, but when convenient.
- Each auditor needs a list.

Advice for achieving output

- Each auditor should check the other auditor's list to ensure all possible deficiencies have been resolved.

Internal Audit

Potential deficiencies identified



Accounts Payable

Date	Source reference	Potential Deficiency	Resolution
6-Jan-X1	Scope meeting	Queries on unmatched invoices are overdue	See test 2
4-Feb-X1	Observing input of invoices with no order	Noted most invoices without an order were for legal expenses. However, some from JB Associates for competitor review work also had no order. Follow this up.	Test 1
5-Feb-X1	Visit to purchasing departments	These departments don't seem to receive monitoring reports for invoices with no orders, variance reports and unmatched invoices	See tests 1 and 2

H – Deficiencies for discussion

Output of process

- A list of those risks which we do not consider sufficiently mitigated by controls - known as deficiencies
- An updated “Action” column on the ORCR.
- A reference to the deficiency noted in section H
- An opinion on, 'Is action being taken which will bring the risk to below the risk appetite and ensure the achievement of the objective?'

Standards for output

- Any risk in the database with an NO or YES WITH EXCEPTION opinion should be included (2320).
- Any other important issues arising, which were not necessarily in the original scope, should also be included.
- Each deficiency should be supported by hard evidence, if possible (2330).
- Deficiencies concerning the same subject should be combined.
- Each deficiency should be identified with a possible “owner”, that is the person who is able to instigate actions to mitigate the risk to an acceptable level. This owner will be confirmed at the closedown meeting.
- Risks should be identified by owner and significance, as measured by the residual risk.
- The opinion on action to be taken is defined below:

Opinion on	Is action being taken which will bring the risk to below the risk appetite and ensure the achievement of the objective?	Opinion:	Report as:
Definition	The action being taken will result in the risk being mitigated to below the risk appetite.	YES	No deficiency
	The action being taken will still leave the risk above the risk appetite but it is not judged sufficient to prevent the achievement of the objective.	YES WITH EXCEPTIONS	Deficiency
	No action is being taken, OR Insufficient action is being taken to mitigate the risk to below the risk appetite.	NO	Major deficiency

Internal Audit

H2

Deficiencies for discussion (extract)

Accounts Payable

Source reference	Control opinion	Deficiency	Implication	Action	Action by	Report reference
Risk Maturity testing (E)	NO	Risk Management department contacts all functions every quarter to update the ORCR. Not all replies are received.	Important risks are missed and managers get the impression that risk management is unimportant	The Head of Risk Management will contact all managers not replying to insist on a reply	Head of Risk Management	Report point 4
Risk Maturity testing (E)	EXCEPTION	No evidence that the Head of Accounting Services signs off Objectives, Risks and Controls Register	May be some objectives, risks or controls missing.	Head of Accounting Services will sign off the Objectives, Risks and Controls Register	Head of Accounting Services	Report point 5
ORCR	EXCEPTION	Risk not identified. Can select wrong supplier on input of invoices without an order number	Payment to incorrect supplier, which it may not be possible to recover	None but likelihood is very low	n/a	Report point 6
ORCR Test 1	NO	No monitoring of invoices processed with no order. Monitoring report not checked.	Possible collusion with a supplier to authorise invoices where value not received.	See test 1	Chief Operations Officer	Report point 1
ORCR Test 2	EXCEPTION	Some variance reports not checked	Where buyers fail to act on price queries and they are overridden, prices paid may be too high	Office Managers will check the variance reports for unusual items and check these with the appropriate buyers	Office Managers	Report point 3
ORCR Test 2	NO	Queries on unmatched invoices not cleared quickly	Supplier stops deliveries	Office Managers will improve the training of buyers to include the clearance of queries and prompt update of supplier prices.	Office Managers	Report point 2

Work plan for achieving output

- From the ORCR, extract the deficiencies, combining them as necessary.
- If separate close-down meetings are required with different auditees, set up a separate deficiencies sheet for each.
- The implications of the deficiency should be determined, ideally a monetary amount - this will give the significance of the finding.
- Any recommendations to be made can be noted, however it is management's prime responsibility to decide on the action to mitigate the risk.
- If appropriate, discuss the deficiencies with the people handling the transactions, to ensure they understand that the issue will be raised with their manager.
- Arrange working paper review ('mid audit file review') by the CAE before finalizing issues.
- Update the ORCR opinions, including the "Action" column, opinions defined as above.

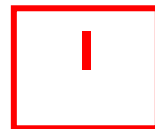
Advice for achieving output

- If the issue is anecdotal, that is you only know about it through conversations, present it as such (or not at all).

Insert a file divider after this page

Internal Audit

I Draft report



**Draft
report**

Section index I – Draft report

Purpose of section I

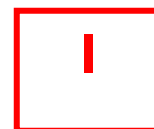
- Versions of the draft report, together with related covering notes and comments received are filed in this section

Standards for section I

- The section should contain the original draft report circulated, together with all the documents commenting on the report
- Where comments have resulted in changes to the report, these should be referenced to ensure the reasons for changes can be substantiated

Internal Audit

Section index I – Draft report



Accounts Payable

Contents	Ref
Draft report	I1
E-mail with draft report	I8
Comment on draft report – Logistics Director (<i>not included</i>)	I9
Comment on draft report – Country Director (<i>not included</i>)	I11
E-mail detailing changes as a result of comments (<i>not included</i>)	I12
Back to File Index	

I – Draft report

Output of process

- A report, giving a conclusion on whether the objectives are likely to be achieved (2410.A1).
- The ORCR with the report column referenced to the relevant section of the report.

Standards for output

Report layout and content

- The report to follow the standard layout, unless the CAE agrees that a different layout is more appropriate.
- When sending draft reports which have been updated, show the amendments made (use “revision marking”).
- If the audit does not comply with the standards, the report should state (2430):
 - Standards where full compliance was not achieved.
 - Reasons for non-compliance.
 - The effect on the audit.
- The version of the draft report circulated should be protected to prevent amendments, and a copy placed in the audit file. Use File/Save as/tools to set a password, or recommend as “read only”.
- Save another version of the draft report to form the final report.

Summary of conclusions

- The first page should show:
 - The conclusions reached on each of opinions required (see below)
 - An overall conclusion as to whether the objective stated at the top of the summary page is being achieved.

The Retail Company

Accounts Payable

Draft Report
23 February 20X1

M Davis
F Sawyer

Standards for output (cont)

Opinion on	Opinion		
<p>Has management established a proper control framework? That is, has management: specified their objectives, identified the opportunities benefiting and the risks threatening these objectives and established controls which should reduce the risks to acceptable levels?</p>	<p>Thorough processes have been used with the result that necessary controls to risks have been established. The objective will be achieved if the controls are operating.</p>	<p>Processes have been used, but there are some deficiencies which are not judged sufficient to prevent the achievement of the objective.</p>	<p>Inadequate, or no, processes have been used and, it is probable that the objective will not be, OR is not being achieved</p>
<p>Are these controls sufficient and operating to bring the risks to below the risk appetite and ensure the achievement of the related objective?</p>	<p>Controls are sufficient and are operating to bring risks to below the risk appetite. (although some action may be required – note in “Supplementary issues”.) No more monitoring is necessary than is done at present The objective is being achieved.</p>	<p>Controls are sufficient and are operating to bring most risks to below the risk appetite. However, some risks are not below the risk appetite but are not judged sufficient to prevent the achievement of the objective. Some additional monitoring may be required (see the report for details)</p>	<p>Controls are not sufficient and/or are not operating to bring risks to below the risk appetite. It is probable that the objective will not be, OR is not being achieved. Major improvements are required to the monitoring of controls</p>
<p>Is action being taken which will bring the risks to below the risk appetite and ensure the achievement of the objective?</p>	<p>The action being taken will result in all risks being mitigated to below the risk appetite and the objective will be achieved</p>	<p>The action being taken will still leave some risks above the risk appetite but these are not judged sufficient to prevent the achievement of the objective.</p>	<p>No action is being taken, OR Insufficient action is being taken to mitigate risks to below the risk appetite and the objective is not being achieved.</p>
<p>Opinion:</p>	<p>YES</p>	<p>YES WITH EXCEPTIONS</p>	<p>NO</p>
<p>Report as:</p>	<p>No deficiency</p>	<p>Deficiency</p>	<p>Major deficiency</p>

Summary of Opinions

Objective: Pay suppliers the correct amount at the time agreed	
Significance of the objective to the organization	HIGH
Opinions:	
Has management established a proper internal control framework? That is, has management: specified their objectives, identified the opportunities benefiting and risks threatening these objectives and established controls which should reduce the risks to acceptable levels?	YES
Are these controls sufficient and operating to bring the risks to below the risk appetite and ensure the achievement of the related objective?	NO
Is action being taken which will bring the risks to below the risk appetite and ensure the achievement of the objective?	YES WITH EXCEPTIONS
Overall opinion: Is the objective being achieved?	
	NO

Standards for output (cont)

Introduction

- If the audit was requested by the auditee, the introduction should note this.
- Include a brief introduction for directors who may not understand the processes involved.

Deficiencies

- This section should provide a brief summary of those deficiencies which support the opinions on the summary page.
- Further detail should be included in later sections.

Report conclusion

- The conclusion should provide, for the processes audited, an opinion on whether:
 - Opportunities and risks have been properly identified, evaluated and managed.
 - Internal controls are operating properly to maximize benefits from these opportunities or to mitigate these risks to levels defined as acceptable by board policy.
 - Action is being taken to improve controls, where risks are not being properly mitigated.
 - More monitoring, by management, is necessary to ensure proper internal controls into the future.
- An overall conclusion should be given as to whether a sound system of internal control is maintained for the processes audited (2410.A1) and therefore that the objective(s) is being achieved. This should mirror the conclusion given on the summary page.
- The wording and scoring of conclusions is shown on the previous page.
- An “NO” or “YES WITH EXCEPTIONS” conclusion must be supported by a summary of the key deficiencies which cause it. Details should be reported in the later section.
- If any deficiencies are being reported, the opinion should usually be “NO” or “YES WITH EXCEPTIONS”.
- For the conclusion on internal controls, where the opinion is be “NO” or “YES WITH EXCEPTIONS”, specify which objectives are not being met, or are being threatened by risks which are not properly controlled.

Report distribution

- If any opinion is “NO” or “YES WITH EXCEPTIONS”, the entire report should be sent to all on the circulation list. If all opinions are “YES”, only the executive summary is sent to directors. “Supplementary issues” need not be sent.
- The report should be approved by the CAE before issue.
- The audit database (ORCR) should be sent with the report, but only to managers directly involved with the processes, unless requested by directors.
- The report must be proof read directly before distribution by someone who has not been associated with the audit (see section K)..

1-Executive Summary

Introduction

The Accounts Payable process involves:

- The matching of invoices which have an order with the order and receipt details.
- Obtaining approval for the payment of invoices without an order.
- The payment of invoices (less applicable credit) at the time they are due.

Objective of the processes

Pay suppliers the correct amount at the time agreed.

Deficiencies

The following significant deficiencies were discovered during the course of the audit:

- Merchandising and Purchasing Departments are not monitoring invoices with no orders. As a result we found invoices for one supplier which were approved by a Head of Merchandising who was also the budget holder. There was therefore no independent check that the services had been received, or were at an acceptable cost. This issue is now the subject of a separate investigation.
- Invoices failing a match with order prices or quantities received are not being promptly cleared by Merchandising and Purchasing Departments. This results in inefficiency in the Accounts Payable Department and late payments to suppliers who could stop deliveries.
- In order to pay suppliers with overdue orders, Accounts Payable has to override queries thus creating a variance between the total order price and paid (invoiced) price. These variances are listed on a report which should be examined by the Merchandise and Purchasing Departments, to ensure the company is not being overcharged. This report is not examined.
- The quarterly returns from managers, which should list any changes to risks, are not always received by the Head of Risk Management.

Conclusions

- The controls which are the responsibility of Accounts Payable Department are being operated to bring the risks within the risk appetite of the company.
- However, there are major deficiencies in the operation of internal controls operated by the Merchandising and Purchasing Departments and the objective noted above is not being achieved.
- Action is being taken by the Chief Operations Officer to address the deficiencies by April 30, 20X1.

Based on the above findings, our overall opinion is that a the risks to the organization's objectives are not being managed to acceptable levels and that urgent action is required to ensure the objective will be achieved.

The full list of risks, controls, tests and issues in the form of a spreadsheet is being sent to managers. A follow-up audit of the actions noted in this report will be carried out in July 20X1.

Standards for output (cont)

Report distribution (cont)

- The draft report should be agreed with the managers directly involved, before giving it a wider circulation. Indicate in the circulation list who is to receive the draft and final reports.
- If the report is extensively amended as a result of comments received, re-circulate it as a second draft.

Follow up

Where action has been agreed to address deficiencies raised, the date of the audit to check this action should be noted in the executive summary.

Deficiencies

- Where possible, individual deficiencies should be combined and put in order of priority.
- Deficiencies should contain:
 - Observation – what we found
 - Implication – what risks could occur and which objectives are affected. Include a monetary measure, if possible
 - Options – what can be done to reduce the risk to acceptable levels. (Include only if there are options).
 - If management request assistance, recommendations to ensure risks are mitigated to acceptable levels (not necessary if the action has been agreed).
 - The action to be taken, by whom (job title) and when it will be complete. This should include additional monitoring of controls, if necessary.
- Deficiencies should be split into *Major Deficiencies*, *Deficiencies* and *Supplementary* issues. *Supplementary* issues will have a 'YES' opinion but cost-effective action may be possible to increase efficiency.
- Recommendations should be brief. Any justification for the recommendation should be included in the “implication” paragraph above.
- Action on deficiencies is essential to reduce risks; action on supplementary issues is not essential but will improve control and efficiency.
- On the file copy (paper or computer), all deficiencies should be referenced back to the supporting working papers to provide evidence, if challenged.

2-Major deficiencies

Opinion is NO

2.1 – A Head of Merchandising was able to approve invoices without an order and with no independent checks (DEF 1)

Observation

Since suppliers are instructed to obtain orders before supplying goods or services, most invoices refer to an order and there will therefore have been a verification of the supplier by a purchasing department and negotiation on prices. There are very few batches of invoices without order numbers and these are mainly for lawyers providing specialist advice to the company's legal department. All of these invoices are approved by the Chief Legal Officer and the total spend on these services is closely monitored by Management Accounts to prevent any staff submitting false invoices and approving them. In addition, there is a list of approved lawyers.

However, one of the batches examined (number 12/02) contained an invoice from a consultancy company for design work and competitor reviews. It was noted:

- The invoice from, JB Associates, had been correctly approved by the Head of Food Merchandising (Jim Higson). The invoice was addressed to Mr J Higson at the company's address.
- The invoice amount (\$14,500) was correctly coded to the cost center *Food* Expense code *Consultancy*. The budget holder of this cost center is Jim Higson.
- If the invoice had been over \$15,000 it would have to have been approved by the Chief Operations Officer, since it had no order and therefore no prior approval.

Further work showed:

- The monitoring control should be a report of all invoices processed without an order, checked by the appropriate buying department. We could not find any evidence of this report being produced and checked. Only one of the office managers, who distributed such reports, could remember the report and she said it had been 'discontinued by IT'.
- We examined the expense account codes for the Food cost center, checking for the supplier. We only found JB Associates' invoices in the Consultancy expense account.
- We used the services of an IT auditor to write a report to extract all invoices with no associated order number back to 1 January 20X0. This report showed:
 - 20 invoices for legal department totaling \$126,340
 - 46 invoices for JB Associates totaling \$209,423.
 - 126 other invoices, all below \$300 value.

Standards for output - issues (cont)

- Where you receive comments on a draft report, either in writing or verbally, and decide not to make any changes, ensure your reasons are given to the person making the comments.

Work plan for achieving output

- The draft report should be written from the closedown meeting and list of deficiencies.
- If the report contents are likely to be contentious, arrange a meeting to discuss the report when it is circulated.
- Consider presenting the report in a meeting, as well as a written report.

Advice for achieving output

Before writing

- Consider your readers:
 - Why should they bother to read the report? Make this clear in the first paragraph. Include figures at risk where possible.
 - What impression do we wish to leave them with when they have read the report:
 - Everything's fine, except possibly for a few minor issues.
 - Everything's OK but there are one or two deficiencies which you, the reader, should address.
 - You're in trouble. There are major deficiencies and the processes are not operating properly, or may fail in the near future.
 - What action is the reader expected to take, and by when?
- If you could sum up the impression we want the report to give in one sentence, what would it be? Make sure it's in the conclusion (2420)!

Deficiencies

- The deficiencies included in the summary need only be in brief and sufficient to support the conclusions. The details should be included in section 2.
- Where deficiencies are found which were mentioned by managers or staff, or are not within the original scope – make this clear.
- If any deficiencies are controversial, or were discussed some time ago, discuss the wording of the draft report with interested parties before generally circulating it.
- Consider putting anecdotal evidence, and minor points, in a letter to the manager concerned.
- Where recommendations are directed towards the organization, and represent part of a larger problem, this needs to be clearly stated in the conclusion, in order to have impact at board level.
- As with the closedown meeting, major deficiencies should be discussed with senior management before the issue of the final report.

- We examined the invoices paid to JB Associates. All were addressed to Mr. J Higson and all approved by him. None were over \$15,000 in value.
- Discreet enquiries within the Food Merchandising Department indicated that competitor reports had been received for the amount paid, but with no guarantee that the company had obtained value for money.

Consequence

Acting in collusion with a supplier, it is possible to make payments where the organization did not receive any value.

Cause of deficiency

The underlying cause of this deficiency is the failure to define the responsibility for checking the report listing invoices with no order.

Action being taken

The Director of Operations has instigated the following action, after discussion with the CAE:

- Mr Higson has been suspended, pending the outcome of the investigation.
- All further work from JB Associates cancelled.
- No JB Associates invoices to be paid.
- All invoices should have an order.
- The director will approve all invoices with no order until the investigation is complete.
- A system will be put in place to ensure division of responsibility for approving these invoices.

Action opinion: YES WITH EXCEPTIONS: The action being taken will result in all risks being mitigated to below the risk appetite but until we have checked the new procedures as part of our follow-up audit we cannot provide a YES opinion.

Conclusion

- See “Before writing” above. Have you said this?
- Remember that your report may be printed on a monochrome (black and white) printer. If you have used color, for example in charts, check they can be understood in grayscale.

Further reading

- Reports need to be understood. Plain English is important. Try their web site at <http://www.plainenglish.co.uk/index.html>

2.2 – Invoices under query are not being cleared promptly (DEF 2)

Observations

- In the Food and Beverage Merchandising Departments and the Expense Purchasing Department some invoices were not cleared for six months. As a result suppliers continually contact Accounts Payable, who have to spend a considerable amount of time, answering queries and referring the suppliers to the appropriate buyers. This causes inefficiencies within Accounts Payable, who have an objective of reducing staff numbers.
- In trying to determine the reason for the failure to clear invoices, of the six buyers with long outstanding queries, four said they had received no training in clearing queries. The other two said they had received training but had no time to sort out problems.
- The buyers and office managers in the departments concerned stated that the main reason for so many queries arising was the failure to update prices on the computer when they changed. No-one seemed sure why the delay occurred but lack of training was cited by some buyers. As a result the order was issued at the incorrect cost. Suppliers accepted orders without checking the cost and invoiced at the cost on the delivery date.

Consequence

Suppliers stop deliveries, with a consequent loss of profit to the company and customer dissatisfaction.

Failure to achieve the objective of reducing staff numbers.

Cause of deficiency

- Failure to update prices promptly on the computer, possibly due to lack of training.
- Lack of training was also the cause of failures to clear queries.

Action being taken

- The Chief Operations Officer has instructed Office Managers to arrange training for all buyers in clearing queries and updating prices
- The Chief Operations Officer has written to his Heads of Merchandising and Purchasing instructing them to ensure queries are cleared within two weeks and supplier price changes are input so that orders issued have the agreed price on them.

This page is blank

2.3 – Order price variances not examined (DEF 3)

Observation

To monitor the excess paid over the order cost, a variance report is produced against each buyer showing the difference, by invoice in supplier order, of total invoice cost against order cost. This report was not examined by any member of the buying departments.

Consequence

Since the AP department have to override overdue queries, this report is necessary to detect overcharging.

Cause of deficiency

Lack of training

Options

- Improve training, including induction training
- Responsibility to be assigned for checking variance reports

Action being taken

- Office Managers will check the variance reports for unusual items and check these with the appropriate buyers

2.4 - Quarterly risk updates not returned (DEF 4)

Observation

The Head of Risk Management does not ensure that all quarterly returns of risk updates are received from managers.

Implication

Emerging risks may be missed.

Action being taken

The Head of Risk Management will ensure that all quarterly returns of risk updates are received from managers, as from the April circulation.

This page is blank

3 - Deficiencies

Opinion is YES, WITH EXCEPTIONS

3.1 No evidence that the Head of Accounting Services signs off Objectives, Risks and Controls Register (DEF 5)

Observation

The Head of Accounting Services signs the ORCR as evidence that she has checked it to ensure all necessary monitoring controls are present. This check is not evidenced.

Consequence

Monitoring controls may be missing.

Action being taken

The Head of Accounting Services will send an e-mail to the Head of Risk Management to confirm that she has checked the ORCR every quarter for monitoring controls.

3.2 Payment might be made to the wrong supplier where there is no order number (DEF 6)

Observation

The input clerk can select the wrong supplier on input of invoices without an order number.

Consequence

Payment will be made to the wrong supplier, which it may not be possible to recover.

Action being taken

Since there are very few invoices without an order, it has been decided to accept this risk.

This page is blank

4-Supplementary issues

These arise from residual risks which are within the risk appetite, as defined by the Board, and therefore do not affect the achievement of objectives. Action on these issues would improve control and efficiency.

There are no supplementary issues

Circulation

Name	Job title	Draft	Final
D Tritt	Chief Operating Officer	-	✓
H Trent	Chief Financial Officer	-	✓
A Smith	Head of Accounting Services	✓	✓
M Khan	AP Manager*	✓	✓
	Merchandise and Purchasing Department Office Managers**	✓	✓

*A spreadsheet copy of the audit database, showing the full processes, risks and controls audited, is being sent to the managers directly involved, with this report.

**Relevant part of report only

A summary of this report will be sent to the Audit Committee. The Audit Committee and external auditors have the opportunity to review the complete report.

I – Letter with draft report

Output of process

A letter, or e-mail, which is sent with the draft report.

Standards for output

- The contents of the letter should:
 - Summarize the opinions.
 - Note that an executive summary is included in the first pages of the report.
 - Give the date by which comments should be made, usually two weeks after the circulation.
 - Indicate who is to receive the draft report.
 - Thank the people involved for their help during the audit, if appropriate.
- The letter is sent from the auditor in charge.

Work plan for achieving output

- The letter is written when the report is ready for sending.
- If the report is likely to be controversial, consider asking the CAE to review the letter.

Advice for achieving output

- Ensure the date set for receiving comments is reasonable. Take into account holidays and periods out of the office.

Internal Audit

I10

E-mail

To: A Smith	Head of Accounting Services	From: F Sawyer
M Khan	AP Manager*	Auditor
	Merchandise and Purchasing Department Office Managers**	Internal Audit Department
		Head Office
		Date: 23 February 20X1

Draft report on Accounts Payable

Please find attached the draft report on the audit of Accounts Payable. We are also sending a copy of our risk and control Excel spreadsheet, should you wish to see how we reached our conclusions.

As we confirmed in our discussions with you, the overall conclusion is that the objective of 'Pay suppliers the correct amount at the time agreed' is not being met primarily due to deficiencies in the Purchasing Departments. We are satisfied that action is being taken to correct the weaknesses found.

An executive summary is included in the first page of the report.

We would like comments on the report by March 8. Please let me know if this likely to cause problems.

The draft report is being sent to the staff listed above. The final report will also be sent to the finance director, and will also be available to the external auditors and audit committee.

Would you please pass onto your staff our thanks for all the help and hospitality they provided during this audit.

Regards

F Sawyer

This page is blank

Insert a file divider after this page

Internal Audit

J Final report

**Final
report**

Section index J – final report

Purpose of section J

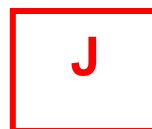
- To hold the final report, covering letters sent with the report, and comments received as a result of the report.

Standards for section J

- A paper copy of the report circulated must be filed, in case the electronic version should be lost or altered.

Internal Audit

Section index J - Final report



Accounts Payable

Contents	Ref
Final report (<i>not included</i>)	J1
Letter with final report	J8
Letter from Finance Director (<i>not included</i>)	J9
Back to File Index	

J - Final report

Output of process

- A report, giving a conclusion on whether the objectives of the processes audited are being, and will be achieved.
- Where appropriate, details of the action to be taken, with times, to reduce risks to acceptable levels.

Standards for output

- The report to be approved by an audit manager or the chief audit executive before issue, to ensure the actions agreed are satisfactory (2440).
- The report to be proof read directly before distribution by someone who has not been associated with the audit.
- If the report opinion is NO consider setting up a meeting to deliver the report and discuss the issues.
- If the final report contains a significant error or omission, the CAE should communicate the corrected information to all recipients of the final report (2421).
- If reports are to be sent outside the company, they should be marked "Confidential", and a covering letter sent stressing the report should not be distributed further without the company's permission (2410.A3). Except where distribution is required by law, the CAE should assess the risk to the company and consult as appropriate (2440.A2).
- Audits requiring follow-up to ensure the implementation of recommendations should be noted on the ORCR (2500).
- Where the CAE believes management has accepted a residual risk which is greater than the risk appetite of the organization, the CAE should discuss the matter with the relevant senior management. If the matter is not resolved, it should be referred to the Board and/or Audit Committee, as appropriate (2600).
- When complete, save the report as 'Read only', to prevent changes after circulation.

Internal Audit

J1

Final report

As the final report is very similar to the draft report, it is not repeated here to save space.

Work plan for achieving output

- Just before comments are due on the draft report, phone the people who haven't responded to check that they are on target to reply.
- Chase for replies not received on time.

Advice for achieving output

- If people are late in replying, and do not respond to reminders or requests as to why they have not responded, tell them that the final report will be distributed on a particular date, so if they haven't replied by then, this will be noted.
- If e-mailing the report, remember that lovely colored charts may not be clear if the recipient prints them in "grayscale". So print them in "grayscale" yourself to check.

Internal Audit

Final report

This page is blank



J – Letter with final report

Output of process

A letter, or e-mail, which is sent with the final report.

Standards for output

- A covering letter should be sent with the report:
 - Indicating the overall conclusion.
 - Noting the action which is being taken on any issues (2440.A1).
 - Where action is not being taken, noting that senior management have accepted the risks (2500.A1).
 - Noting any special action the recipient should take.
 - Specifying who they should contact in the event of a query.
- The letter is sent from the CAE.

Work plan for achieving output

- The letter is written when the report is ready for sending.
- If the report contains major deficiencies and/or proper action is not being taken, consider briefing the finance director.

Internal Audit

J8

Memo

To: D Tritt	Chief Operating Officer	From: P Jones
H Trent	Chief Financial Officer	Chief Audit Executive
A Smith	Head of Accounting Services	Internal Audit Department
M Khan	AP Manager*	Head Office
	Merchandise and Purchasing Department Office Managers**	Date: 8 March 2004

Final report on Accounts Payable

Please find attached the Final report on the audit of "Accounts Payable".

The overall conclusion is that the risks to the organization's objectives are not being managed to acceptable levels. We are satisfied that action is being taken to correct the deficiencies found.

An executive summary is included in the first page of the report.

A summary of this report will be sent to the audit committee and the full version will be available to the external auditors and audit committee.

If you have any queries on the report, please contact me

Regards

P Jones

Chief Audit Executive

This page is blank.

Insert a section divider after this page.

Internal Audit

Quality control

K

**Quality
control**

Section index K – quality control

Purpose of section K

- To file those documents used to record the quality control checks carried out during the audit (1311).

Standards for section K

- Review notes and proof reading checklists are filed in the audit file.
- Feedback, targets and appraisal documents are filed in the respective auditors' personnel (HR) files. (They are included in this file for convenience).

Internal Audit

Section index K –Quality Control



Accounts Payable

Contents	Ref
Review notes – after risks scored (<i>not included</i>)	K1
Review notes - prior to closedown meeting	K2
Review notes – draft report (<i>not included</i>)	K3
Review notes – final report (<i>not included</i>)	K4
Review notes – file before filing (<i>not included</i>)	K5
Proof reading	K6
Feedback - M Khan	Personnel file
Feedback - H Trent (<i>not included</i>)	Personnel file
Individual targets – M Davis	Personnel file
Individual targets – F Sawyer (<i>not included</i>)	Personnel file
Individual appraisal – M Davis	Personnel file
Individual appraisal – F Sawyer (<i>not included</i>)	Personnel file
Back to File Index	

K - Review notes

Output of process

- Document noting comments from the reviews carried out on the audit documentation.

Standards for output

- The document must always be used by a reviewer to ensure action is taken on the points raised.
- The name of the reviewer, and date the review takes place, should be noted.
- The point in the audit at which the review takes place should be noted. The CAE must carry out a review (2340):
 - After the risk maturity check.
 - After the issues have been included on the database, prior to close down meeting.
 - After the issue of the final report.
- The source of the deficiency should be noted.
- The action taken should be noted and, where necessary, the source document should be corrected and its reference shown.
- The auditor is responsible for noting the action taken.
- All points should be cleared before the approval of the final report.
- The nature of the comments made will influence the appraisal of the auditor.
- Reports should be accurate, objective, clear, concise, constructive, complete, and timely (2420).

Work plan for achieving output

- Give sufficient notice to the reviewer that a file review is required.
- Reviews, other than those noted above, may be carried out at any time during the audit. The table on the next page gives details.
- Other than the CAE, reviews can be carried out by auditors not involved in the audit ("colleagues"), staff with specialist skills or anyone who has the appropriate skills!

Advice for achieving output

- Reviewing files can be so boring. Set yourself a target to do so many sections in 30 minutes, before having a break and doing other work.

Internal Audit

K2

Review notes

Accounts Payable

Review stage: End of Audit Review. **Date:** 16-Feb-X1 **Review by:** P Jones

Source reference	Review point	Action on point	Action reference
B Functions	Include AP names in the function hierarchy	Done	Cleared
E Input invoices flowchart	Include a box with the objective	Done	Cleared
F Risk Maturity	There is no Risk Management Committee. Is one needed?	Discussed this with Head of Risk Management. The Audit Committee have discussed the need for one but don't consider it necessary	Cleared. Noted on F
G ORCR	Risk 127. What about controls over agency/temporary staff?	Use of Agency staff is very rare. If they are used, they are interviewed and approved by the AP manager. They are used for jobs where the risks are low.	G ORCR Control added
H Potential deficiencies	I will include an audit of purchasing departments in the plan ASAP	Noted by CAE on audit plan	Cleared from this audit

Possible audit stages for review

When	Purpose	Who
Sign off of scope	Confirm scope clearly sets out the aim and boundaries of the audit	CAE
Processes documented	To decide on the direction for the rest of the audit To identify inherent risks and score them	Colleague
Throughout audit	Audit is in accordance with the scope (or scope needs amending), diary being written, meetings being documented and referenced, and “stakeholders” being informed of progress	Auditor in charge
Processes, risks and proposed tests documented	Ensure all risks have been identified and testing covers all key controls	CAE
Prior to the close down meeting	File review to ensure: The work outlined in the scope has been carried out Sufficient work has been carried out to justify the conclusions made Deficiencies are raised: where risks are not properly mitigated by controls; or controls have been tested and found to be ineffective Deficiencies raised in the report can be easily traced back to supporting evidence (tests, interviews) The documentation is complete and follows standards set out in the manual, amended as appropriate	Colleague CAE
Draft report ready for circulation	Check to ensure that the report properly represents the conclusions of the audit work and that the presentation and English are to the standards expected	CAE
Proof read draft and final reports	Sign off to ensure that the report adheres to layout standards, no errors, spelling mistakes	Colleague
Final report ready for circulation	Sign off to ensure that the report is suitable for circulation	CAE
End of audit	File conforms to “model file”, in particular all issues are referenced	CAE

Internal Audit

Review notes (2)

K2

This page is blank

K - Proof reading

Output of process

- A checklist showing that the document has no errors.

Standards for output

- All important documents, including the final scope, draft and final reports must be proof read immediately prior to sending.
- A document should be proof read by someone totally unconnected with it, but who understands the standards it must be judged against.
- A black-and-white printed version of the document should be used.
- If a document only requires minor amendments, only these amendments need be checked in the final document.
- If a document has many amendments, it must be proof read again
- If the document, such as accounts, contains totals, they must be checked with a calculator. Spreadsheet formulas must not be relied on, as they can introduce rounding errors. If calculations are too complex to repeat with a calculator, the spreadsheet formulas should be independently checked. The degree of checking will depend on how the results are used.
- Required amendments should be clearly marked, preferably in red or another clearly visible color.

Work plan for delivery

- Request a suitably knowledgeable person to proof read the document. Give them the checklist and, if necessary make sure they understand it.
- It is probably better to proof read the document several times, looking for particular aspects each time, such as layout, then page numbers, then punctuation, and so on.

Advice for achieving delivery

- The purpose of proof reading is to check the layout of the report and accuracy, with regard to punctuation, spelling (including accents in some languages such as French and Spanish) and grammar.
- The purpose of reviews is to ensure the document is technically correctly and understandable. They will not necessarily detect errors found by proof reading.
- The audit report is our audit department's "product". If it is faulty in any way, it removes credibility from the department. Some managers will take the view that, if we can't get our apostrophes (or accents) correct, the conclusion in the report cannot be correct either!

Internal Audit

Proof reading

K6

Accounts Payable

Document: *Final report* Proof read# *Bradshaw*

Layout	Checked
Follows standards in the manual	√
Page breaks to ensure titles not at bottom of page	√
Page numbers start on first narrative page	√
Page numbers correct on Contents page	√
Headers and footers correct throughout	√
Dated, author's name included	√
If numbering used for sections, these are all consecutive	√
Titles, paragraphs, diagrams are all correctly aligned	√
Font sizes and type are consistent	√
Reading	
No spelling mistakes (don't rely on the spell checker!)	√
Punctuation correct, including apostrophes	√
No initials or acronyms used without explanation	√
Circulation list – names spelt correctly	√
All appendices are referred to in the report	√
All totals, and any other calculations, checked (if appropriate)	N/A

A tick in the “Checked” column shows that the document has been checked for the requirement noted, **not** that no errors were found.

Where errors are found, clearly mark the report and refer them to the author for correction.

K - Feedback

Output of process

- A document recording the opinions of auditees on the conduct and opinions of the audit which is used to:
 - Improve audit procedures
 - Act as a basis for the auditors' appraisals

Standards for output

- The document is completed by the CAE during a discussion, preferably face-to-face if possible, with individual auditees affected by the audit.
- Auditees should generally be seen individually.
- The feedback document is for guidance only during the meeting.
- The document should record the auditee's views, and **not** any excuses from the audit department where the work did not meet the auditee's expectations.
- Improvements to the audit process ("learnings"), necessary as a result of the feedback should be noted on the form, together with the action taken.
- The completed document should be sent back to the auditee to confirm the record of their views.

Work plan for delivery

- Arrange a meeting with the auditee in a location where you will not be overheard.
- Send a note:
 - confirming the meeting
 - giving reasons for the meeting
 - asking the auditee to consult with colleagues affected by the audit for any comments they may have
- Hold the meeting, noting comments on the form.
- Type comments into the form; send it to the auditee requesting confirmation that it represents their opinions.
- Use the agreed comments for the staff project appraisals.

Internal Audit

Personnel
file

Feedback (1)

Accounts Payable

Feedback from:

M Khan

Date: 16-Mar-X1

Did we:	What we did well	What we could do better
Planning		
Clearly explain the reasons for the audit?	Reasons were clearly explained	
Explain how the audit was to be done?	Care was taken to explain the full audit process	
Include your wishes, priorities and concerns in the Scope?	The scope was good	
Fieldwork		
Keep you informed of progress throughout the audit?	I was kept informed of progress	
Involve you, and your staff, to ensure the audit was carried out efficiently and effectively?	I was involved as necessary	Supervisors think that we should have involved them more
Reporting		
Discuss deficiencies with you at the appropriate time?	Deficiencies were discussed when they arose	
Make recommendations, and agree actions, which improved control and were appropriate to the situation	Recommendations were practical.	
Produce a report which completely fulfilled the objectives noted in the scope?	The report achieved the objectives noted in the scope.	Very unhappy with the overall 'NO' opinion since it only resulted from Purchasing Dept failures!
Carry out the audit within your expected timeframe?	Report was received when expected	

Advice for achieving delivery

- As noted above, the form is for guidance only. In practice you will find most of the discussion goes under “Other comments”!
- Always have a discussion, even if over the phone. If you just send the document, you may not get a full, honest, response, even if you get a reply.
- Record the comments accurately, even if you disagree with them. Remember:
 - He/she could be right!
 - Whether they are right, or wrong, they are probably passing these comments to their staff and managers/directors. It is vital you know their views so that you are in a position to correct them.
- Don't use the meeting to argue against their views or make excuses. You may need to stress that you don't agree with them, but that you will record their views.
- Make sure you extract the learnings and act on them. Even if mistakes were made in the audit, showing that you are taking action to correct them will improve your status. Don't forget to learn from what the audit did well!
- Remember to obtain the auditee's views about how well the auditors worked, as well as the audit process.

Internal Audit

Personnel
file

Feedback (2)

Other comments:

The 'NO' opinion was unfortunate in that all the risks under the control of the AP Department were within the risk appetite but the major deficiencies within the Merchandising and Purchasing Departments resulted in this opinion.

IA tried to lessen the impact by referring to the adequate controls within AP but this only appeared as one sentence on page 2.

The above notes should be an accurate reflection of the comments made during our meeting. If you disagree with them, please let me know. (The inclusion of comments doesn't necessarily mean we agree with them, but we will learn from them, as noted below)

P Jones, Chief Audit Executive (phone 2316)

Learnings going forward:	Action
Involve supervisors more	Brief audit teams
Need to consider how we present conclusions when more than one department is concerned	In cases like this one, consider splitting the conclusion.

K - Targets

Output of process

- A document showing the targets which an individual auditor should aim to reach during the course of an audit and which will form the basis of his/her appraisal.

Standards for output

- Targets must be SMART:
 - **Specific:** a clear outcome (“deliverable”) from the work.
 - **Measurable:** it must be possible to know, without doubt, that the target has been achieved.
 - **Achievable:** it must be possible to achieve the target, by the auditor concerned.
 - **Realistic/relevant:** the target should be related to the work and objectives of the auditor.
 - **Time-related:** a time should be set by which the target should be completed.
- Targets set for an audit should be related to those set for the annual appraisal, so that the audit appraisals can build up to the annual appraisal.
- The standard form, based on the targets for the year, should be used. This should be amended by any specific targets required, which might arise from previous audits, for example, fewer changes required to the draft report.
- A written version of the targets should be given to the auditor within a week of the initial briefing session.

Work plan for achieving output

- The targets are discussed with the auditor just after the initial briefing session.
- If, during the course of an audit, it becomes obvious that an auditor will not meet a target, he/she should be informed immediately. This provides an opportunity for improvement.

Advice for achieving output

- The measurements are a bit negative, since there is reliance on the absence of bad points, as opposed to the presence of compliments!
- The feedback from managers should look for compliments, as well as criticism.
- The targets such as, “Improve relations with the auditees” are not included. Such targets would not be easy to measure and, in most cases, the auditor would not achieve the other targets without good relations. It is also possible for relations to be poor with an incompetent manager who receives a “NO” report or for good relations with a manager where the audit was not sufficiently thorough.

Internal Audit

Targets

Accounts Payable

Auditor: M Davis

Target	Measurement for “competent”
The audit scope will include the work necessary to fulfill the appropriate part of the audit plan	Audit scope agreed by the CAE and management, without significant alteration
The audit will achieve the work detailed in the scope	The CAE review, pre close-down meeting, does not require any further work to complete the objectives set out in the scope
Sufficient work will be done to reach the conclusions required	The CAE reviews do not require additional work in order to ensure the conclusions are backed-up by sufficient evidence Feedback from management shows they are satisfied with the work done, including the auditor’s understanding of the constraints involved
All necessary deficiencies will be raised	Reviews of the ORCR do not highlight omissions which might miss deficiencies Feedback indicates that management consider the deficiencies raised to be relevant and have been given the right priority
Action will be agreed on all the deficiencies raised	Management have agreed to undertake action on all the deficiencies raised, within a reasonable time Feedback indicates management are satisfied that recommendations for action were achievable and in the best interests of the company
The audit will be completed on time	The audit was completed within the budgeted time and the report issued by the date given in the scope Feedback indicates that management were satisfied with the pace of the audit
The audit documentation will comply with the manual	The reviews of the audit working papers did not require extensive additions, changes or removal of unnecessary detail
Staff are managed properly to assist in meeting the above targets	Measurements as above, applied to the work of staff under the control of the auditor
Date: 15-Dec-X0	Signed: <i>M Davis</i>

K - Appraisal

Output of process

- A document showing the achievements against his/her targets, agreed by the auditor (appraisee) and CAE (appraiser).

Standards for output

- The achievement against the target must relate to the measurement listed on the Target Form.
- The appraisal should be held no later than 10 working days after the distribution of the final report.
- The appraisal must take into account the feedback from the auditees. Quotes, in italics, should be used from the feedback.
- The appraisal is scored as follows:
 - E = exceeded the target. This might be by: persuading a reluctant manager to accept some essential action; showing exceptional initiative in the recommendations made; detecting a well-hidden fraud.
 - M = met the target. Achieved the performance expected for an auditor at his/her grading
 - F = fell short. Did not achieve the target.
- An overall appraisal grade is given.

Work plan for achieving output

- Read the review notes and feedback form on the audit file.
- Complete the Appraisal Form.
- Discuss the 'Achieved' comments and rating with the auditor.
- Both sign the form, which is filed in the auditor's personnel (HR) file.

Advice for achieving output

- You may wish to leave giving ratings until the discussion with the auditor, since it is important to get agreement if possible.
- If you cannot get agreement, consider adjourning the meeting so that both can reconsider the facts supporting the conclusion.

Internal Audit

Appraisal (1)

Personnel
file

Accounts Payable

Auditor: M Davis Appraiser: P Jones Date: 19-Mar-X1

Target	Achieved	Rating
The audit scope will include the work necessary to fulfill the appropriate part of the audit plan	The draft audit scope was well written and needed few changes before being issued as a final version	M
The audit will achieve the work detailed in the scope	My review of the documentation and database did not highlight any significant omissions	M
Sufficient work will be done to reach the opinions required	No additional work was required	M
All necessary deficiencies will be raised	The database review showed all deficiencies were raised	M
Action will be agreed on all the deficiencies raised	Action agreed on all deficiencies <i>'Recommendations were practical'</i> . M Khan	M M
The audit will be completed on time	The audit was completed within the budgeted time and the report issued by the date given in the scope <i>"Report was received when expected"</i> M Khan	M M

This page is blank

Internal Audit

Personnel
file

Appraisal (2)

Target	Achieved	Rating
The audit documentation will comply with the manual	Excellent audit documentation	E
Staff are managed properly to assist in meeting the above targets	Measurements as above, applied to the work of staff under the control of the auditor	Not applicable
Additional points		
The discovery of the J B Associate invoices and subsequent audit work was very well done, with senior management being involved at the appropriate time. Favorable comments were given by the Chief Financial Officer and Chief Operations Officer		E

Key to rating: E=exceeded target; M=met; F=failed to meet target.

Overall rating: Exceeded targets

Agreed by (auditor) *M Davis*

Date: *19 March X1*

Appraiser *P Jones*

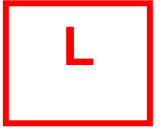
Date: *19 March X1*

This page is blank.

Insert a section divider after this page.

Internal Audit

Follow-up



**Follow
up**

L – Follow-up section index

Purpose of section L

- To file those documents which report on the action taken as a result of the audit report issued (2500.A1).

Standards for section L

- Follow-up audits must be carried out where there are “NO” or “YES WITH EXCEPTION” opinions.
- Audits should be carried out until all opinions are “YES”, or the CAE is satisfied that management may accept the risks of not taking action (2500.A1).
- If, subsequent to action having been agreed in the report, management later decides not to act but to accept a residual risk which is greater than the risk appetite of the organization, the CAE should discuss the matter with the relevant senior management. If the matter is not resolved, it should be referred to the Board and/or Audit Committee, as appropriate (2600).
- The audit committee should be informed of follow-up audits carried out and their last opinions.

Work plan for achieving output

- Use the date for the follow-up audit noted in the final audit report as the target date for commencing the audit. If this is not possible, inform all those affected, giving reasons for the delay.
- Send a letter to all those involved, about two weeks prior to commencing the follow-up audit.

Advice for achieving output

- Where a management team has regular meetings, encourage them to put the progress of the action which has been agreed on the agenda. In this way they will be constantly reminded of the report until all issues are cleared.

Internal Audit

Section index L - Follow-up



Accounts Payable

Contents	Ref
E-mail advising of follow-up audit– July 20X1 (<i>not included</i>)	L1
Follow-up report – July 20X1	L2
Letter with follow-up report (<i>not included</i>)	L5
Back to File Index	

L – Follow-up report

Output of process

- A letter showing action taken as a result of issues raised and giving an update on the conclusions.
- The ORCR follow-up columns completed as appropriate.

Standards for output

- Sufficient enquiries and tests should be carried out to ensure action has been taken and the risk is now mitigated.
- The opinions in the original report and the opinions from the follow-up audit should be shown alongside each other.
- Explanations should be provided for the opinions.
- A separate summary should show the action taken on each of the deficiencies included in the original report.
- Follow-up reports should state a date for the next follow-up, if all opinions are not “YES”.
- Where no action is being taken on “NO” opinions but was promised in the original report the CAE should be immediately informed.
- The CAE should issue the report with a covering letter.
- If any deficiencies are found, which were not in the original report, they should be included in the follow-up report, with an appropriate note.

Work plan for achieving output

- Telephone the management affected by the follow-up audit to inform them it is about to take place, unless there is an element of surprise required.
- Issue a letter confirming this.
- Have meetings with all those people who should be taking action as a result of the original audit report.
- Determine the action taken and confirm this by testing, as far as possible.
- Document the meetings and tests carried out.
- Have the work reviewed by the CAE.
- Write and issue the report.
- Update the ORCR with the results of the follow-up audit.

Advice for achieving output

- The format of the follow-up report is not rigid; you may have to modify it in order to present the results in a clear, concise manner.

Accounts Payable

Introduction

This audit is the first follow-up to the report issued on March 8, 20X1. Since the audit was carried out, the separate investigation of payments to J B Associates has been completed and is the subject of a fraud investigation by the police.

The Chief Operations Officer has reviewed all the objectives, risks and controls within his responsibility and has agreed the proposed new controls with internal audit.

Objective: Pay suppliers the correct amount at the time agreed		
	<i>Original report</i>	<i>This audit</i>
Significance of the processes to the organization	HIGH	HIGH
Opinions		
Has management established a proper internal control framework? That is, has management: specified their objectives, identified the opportunities benefiting and risks threatening these objectives and established controls which should reduce the risks to acceptable levels?	YES	YES
Are these controls sufficient and operating to bring the risks to below the risk appetite and ensure the achievement of the related objective?	NO	YES
Is action being taken which will bring the risks to below the risk appetite and ensure the achievement of the objective?	YES WITH EXCEPTIONS	YES
Overall opinion: Is the objective being achieved?		
	NO	YES

The summary of action taken is shown on the next page.

This page is blank

Summary of action taken

<i>Deficiency</i>	<i>Action promised</i>	<i>Confirmed action taken to date</i>	Grade
No monitoring of invoices processed with no order	All invoices should have an order. The director will approve all invoices with no order. A system will be put in place to ensure division of responsibility for approving these invoices.	COO has issued instruction that all invoices (except some Legal) must have an order number in order to ensure division of duties between the person negotiating the service and the recipient of the service.	YES
Queries on unmatched invoices not cleared quickly	Office Managers will improve the training of buyers to include the clearance of queries and prompt update of supplier prices.	Training course held. Number of invoices failing a price match has fallen by 90%. 95% of invoices failing to match are being cleared within two weeks. Office Managers follow-up any older invoices.	YES
Some variance reports not checked	Office Managers will check the variance reports for unusual items and check these with the appropriate buyers	Examined reports. All variances explained.	YES
Risk Management department contacts all functions every quarter to update the ORCR. Not all replies are received.	The Head of Risk Management will contact all managers not replying to insist on a reply	Confirmed all replies received from April circulation.	YES
No evidence that the Head of Accounting Services signs off Objectives, Risks and Controls Register	Head of Accounting Services will sign off the Objectives, Risks and Controls Register	Confirmed ORCR signed.	YES

This page is blank

Summary of action taken (Continued)

<i>Deficiency</i>	<i>Action promised</i>	<i>Confirmed action taken to date</i>	Grade
Payment to incorrect supplier, which it may not be possible to recover	None but likelihood is very low	Low risk since most invoices (except legal) will have order numbers and therefore match on these.	YES

Insert a file divider here

Computer files

M - Computer files

Output of process

- A logical directory structure for storing the files of each audit.

Standards for output

- The Excel file should be the primary working document with word processed files, such as the report, hyperlinked from it.
- The directory structure must follow the departments' guidelines. These are:
 - Audits are filed in a sub-directory for the year the audit is planned. This makes archiving computer files easier.
 - Files for each audit are held in a directory called: *audit number audit title*. For example: *205 Accounts payable*.
 - Within the main audit directory, there are subdirectories for:
 - A Audit management
 - B Background information.
 - C Scope.
 - D Meeting notes.
 - E Risks maturity
 - F Objectives, Risks and Controls Register
 - G Tests
 - H Deficiencies.
 - I Draft report
 - J Final report
 - K Quality Control
 - L Follow-up.
- All file titles should be preceded by the audit number (for example: 205 final scope).
- Where several versions of a document exist, for example draft reports, attach a version number – 205 draft report v1.

Work plan for achieving output

- Set up the structure after the first meeting with the CAE.

Advice for achieving output

- A strict naming convention for files hasn't been adopted – the important principle is that files can be found quickly.

Accounts Payable example directory structure

205 Accounts Payable

A Audit Management

B Background information

205 organization chart.docx

C Scope

205 draft scope.docx

205 final scope.docx

205 memo with draft scope.docx

205 memo with final scope.docx

etc

[Back to file index](#)

RBIA - Manual - Version Control

Version number	Date issued	Changes made to previous version
1.1	1-Jul-2004	First version using audit of a charity delivering food to camps. (This audit is now attached as working papers to Book 1)
2.0	25-May-2015	This version updated to be consistent with Book 1 and uses an audit of accounts payable as an example.
3.0	12-June-2020	Updated to include references to opportunities as well as risks. More emphasis on reporting on the achievement of objectives. Inclusion of audit tests on the decision-making process

This is the last page in the manual