

# THE AUDIT PROCESS

## WHAT OCCURS DURING THE AUDIT PROCESS?

Although every audit project is unique, the audit process is similar for most engagements and normally consists of four stages: ***Planning, Preliminary Review, Field Work, and Audit Report.*** Your involvement is critical at each stage of the audit process. As in any special project, an audit results in a certain amount of time being diverted from your department's usual routine. One of our key objectives is to minimize this time and avoid disrupting your ongoing activities.

## HOW WE WORK WITH YOU

The most successful audit projects are those in which the department and Internal Audit have a constructive working relationship. Our objective is to have your continued involvement at every stage, so that you, our client, understand what we are doing and why we are doing it.

Generally the following process will occur once a department, area, function or other activity is selected for audit.

### I. **P**LANNING

During this phase, Internal Audit will obtain a basic understanding of the audit project through research and data gathering related to the audit project. Data may include files of prior audits in your area (if any), from either the Internal Audit Department or other regulatory agencies as well as Board policies, administrative regulations, policies and procedures manual, financial reports (for payroll and non-payroll transactions), shared audit programs, TSPR, relevant communications (electronic and other), internet sites, data related to professional/consulting services, organizational charts, job descriptions, sample documents, official district forms, and other applicable information.

We conduct a preliminary evaluation of the existing internal control structure and begin to develop audit scope and objectives. Audit staff may contact you to discuss and agree upon audit scope and objectives. We begin drafting an audit program (if none available) which is basically a list of steps to be performed during the audit as well as relevant self-assessment and internal control questionnaires.

- **Notification Letter**

With few exceptions, the department is informed of the audit project through an announcement letter from the Internal Auditor. Due to the nature of some audit work, we may give little or no advance notice. This letter communicates the scope and objectives of the audit that have been initially developed, and is usually submitted with a list of requested information the department should make available to the auditor.

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- **Initial Meeting (Entrance Conference)**

This is a meeting between applicable personnel of the area being audited and Internal Audit. This meeting introduces you to what will occur on the audit and allows you the opportunity to share any concerns you have. For example, if there is a particular process or procedure in your area you would like reviewed, let Internal Audit know at this meeting. During this meeting, the department head describes the department or system to be reviewed, the organization, available resources (personnel, facilities, equipment, funds), and other relevant information. The internal auditor meets with the individual directly responsible for the department under review and any staff members he/she wishes to include. It is important that those present identify issues or areas of special concern that should be addressed.

## II. **PRELIMINARY REVIEW**

We review and evaluate the existing internal control structure and make any necessary modifications to the drafted audit scope, objectives, audit program, and questionnaires. We take into consideration any discussions during the Entrance Conference and incorporate your suggestions to the audit steps and questionnaires, if appropriate.

- **Internal Control Review**

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

## III. **FIELDWORK**

During this phase, Internal Audit will perform tests of transactions, analytical reviews, and test other applicable data pertinent to the audit. Internal audit will likely interview employees of the audit area to inquire about their duties and/or request further clarification on procedures or documentation. This work is generally performed on site at the area being audited and/or in the Internal Audit Department. It is during this phase that the auditor determines whether the controls identified during the preliminary review are operating properly and in the manner described by department personnel and/or policy and procedures manuals, regulations, board policies, etc.

As fieldwork progresses, the audit program is reviewed to ensure that procedures described within are appropriate to meet the audit objectives. Any significant changes are discussed with the auditee.

The duration of an audit will vary depending upon the scope, objectives and availability and accessibility of information and personnel. The level of cooperation received from the auditee also has a bearing on the duration of the audit. Access to personnel and records is vital for the prompt completion of our work.

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- **Surveys**

In some cases, the auditor may consider it necessary to issue surveys to gather relevant information about the department or function. This is done in order to obtain a general overview of operations. The auditor talks with key personnel and reviews reports, files and other sources of information.

- **Advice & Informal Communications**

As field work progresses, the auditor will discuss significant findings with the auditee. Hopefully, the department can offer insights and work with the auditor to determine the best method of resolving the finding. Usually these communications are oral. However, in more complex situations, memos are written in order to ensure full understanding by management and the auditor. Our goal: No surprises!

Upon completion of the fieldwork, the auditor summarizes the audit findings, conclusions, and recommendation necessary for the audit report discussion draft.

## IV. *A*UDIT REPORT

Our principal product is the final report in which we present the audit findings and discuss recommendations for improvements. Once the fieldwork is completed, Internal Audit will draft a report to include the result of the audit including recommendations for improvement. After the draft report is completed, it will be forwarded to department management for review and discussion at a scheduled exit conference.

- **Exit Conference**

The exit conference is a meeting between Internal Audit, management and applicable personnel to review and discuss the draft Internal Audit report. An exit conference will be scheduled and held between the Internal Audit Department and the SET (Superintendent's Executive Team) Member with ultimate responsibility of the audit project. The Superintendent will be invited to attend the exit conference as well. The exit conference provides an opportunity to resolve any questions or concerns the auditee may have about the observations and to resolve any other issues before the final audit report is released. During this time, we will also discuss the preliminary draft audit report and agree on any necessary changes to the observations and/or recommendations. If necessary, changes may be made to the draft report and reissued to management to be used in preparing a response for corrective action. Draft reports will be collected and reports will not be released without consultation with the auditee, provided the auditee is available and accessible.

- **Responding to Audit Reports**

If necessary, changes may be made to the draft report taking into account any revisions resulting from the exit conference and other discussions and reissue to management to be used in preparing a response for corrective action. The Internal Audit Department will require that management's response be completed using the provided format/template. In

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some cases, management may choose to respond with a decision not to implement an audit recommendation and to accept the risks associated with an audit finding.

- **Timeline**

The completed template will be due within 10 days of the issuance of the final draft report. We ask that management please not submit the template prior to holding the exit conference. Should additional time be necessary, the Internal Audit Department must be contacted (ext. 3400) to arrange for an extension of time.

- **Non-compliance with Timeline**

Failure to submit the template with corrective action steps and/or communicate with the Internal Audit Department will result in the issuance of the final draft audit report to the corresponding administrators and the Board of Trustees indicating that management did not respond nor communicate for an extension of time.

- **Final Report**

Internal Audit will receive the response of corrective action and print and distribute the final report to the Board of Trustees, Superintendent and other applicable personnel as required for final report distribution. This report is primarily for internal management use and intended to benefit and improve the Laredo I.S.D.

- **Internal Audit's Evaluation**

Finally, as part of Internal Audit's self-evaluation program, we provide the auditee with a survey and an opportunity to comment of Internal Audit's performance. This feedback will prove beneficial to us, and we will make appropriate changes in our procedures as a result of the auditee's suggestions.

## ***THE PROCESS: A COLLABORATIVE EFFORT***

As we have pointed out, during each stage in the audit process—planning, preliminary review, field work, and audit report---management has the opportunity to participate. There is no doubt that the process works best when management and Internal Audit have a solid working relationship based on clear and continuing communication.

Many departments will extend this working relationship beyond the particular audit. Once we have worked with you on a project, we have an understanding of the unique characteristics of your operations. As a result, we can help evaluate and provide assistance in an advisory capacity of the feasibility of making decisions in your operations that would help mitigate operational risks in your area. We look forward to adding value to the Laredo Independent School District as a whole.