

Internal Audit (ACCT 337)

Chapter 14 Communicating Engagement Outcomes and Performing Follow Up Procedures

EXHIBIT 13-2 THE ASSURANCE ENGAGEMENT PROCESS

Chapter 13

Plan

- Determine engagement objectives and scope.
- Understand the auditee, including auditee objectives and assertions.
- Identify and assess risks.
- Identify key controls.
- Evaluate adequacy of control design.
- Create a test plan.
- Develop a work program.
- Allocate resources to the engagement.

Chapter 13

Perform


- Conduct tests to gather evidence.
- Evaluate evidence gathered and reach conclusions.
- Develop observations and formulate recommendations.

Chapter 14

Communicate

- Perform observation evaluation and escalation process.
- Conduct interim and preliminary engagement communications.
- Develop final engagement communications.
- Distribute formal and informal final communications.
- Perform monitoring and follow-up procedures.

Engagement Communication Responsibility

- The CAE, periodical  BOD and SM
- Internal Audit Report
- Internal Auditors tests IC (Design and Operating effectiveness) to meet specific control assertions (objectives)
- Assertions:
 1. Control Assertions
 2. F/Ss Assertions

Assertions

Criteria for Assessing Management's Control Assertions

Authorization	Did an approved party authorize the transaction?
Validity	Did the transaction or underlying event actually occur?
Accuracy	Were the terms, amounts, etc. correct?
Timeliness	Was everything recorded in the proper period?
Confidentiality	Was the information kept private?
Integrity	Was the information free from corruption and alteration?
Availability	Was the information stored and readily available?

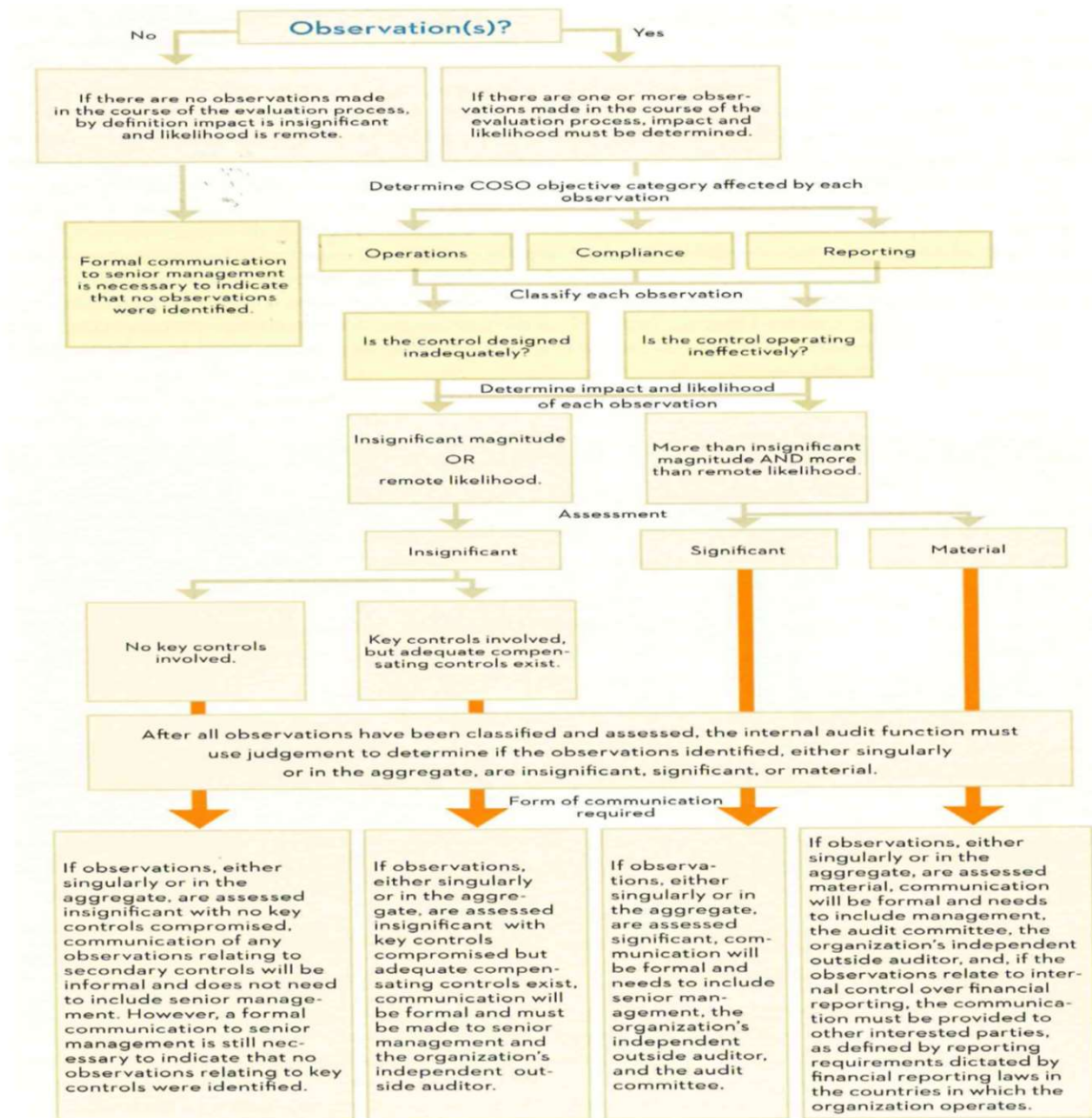
Criteria for Assessing Management's Financial Statement Assertions

Existence or occurrence	Is everything that is there supposed to be there? Did reported events actually occur?
Completeness	Is everything that is supposed to be there really there?
Rights and obligations	Are the items real, and are they authorized and approved?
Valuation or obligation	Are the items accurately calculated and recorded?
Presentation and disclosure	Are items properly classified?

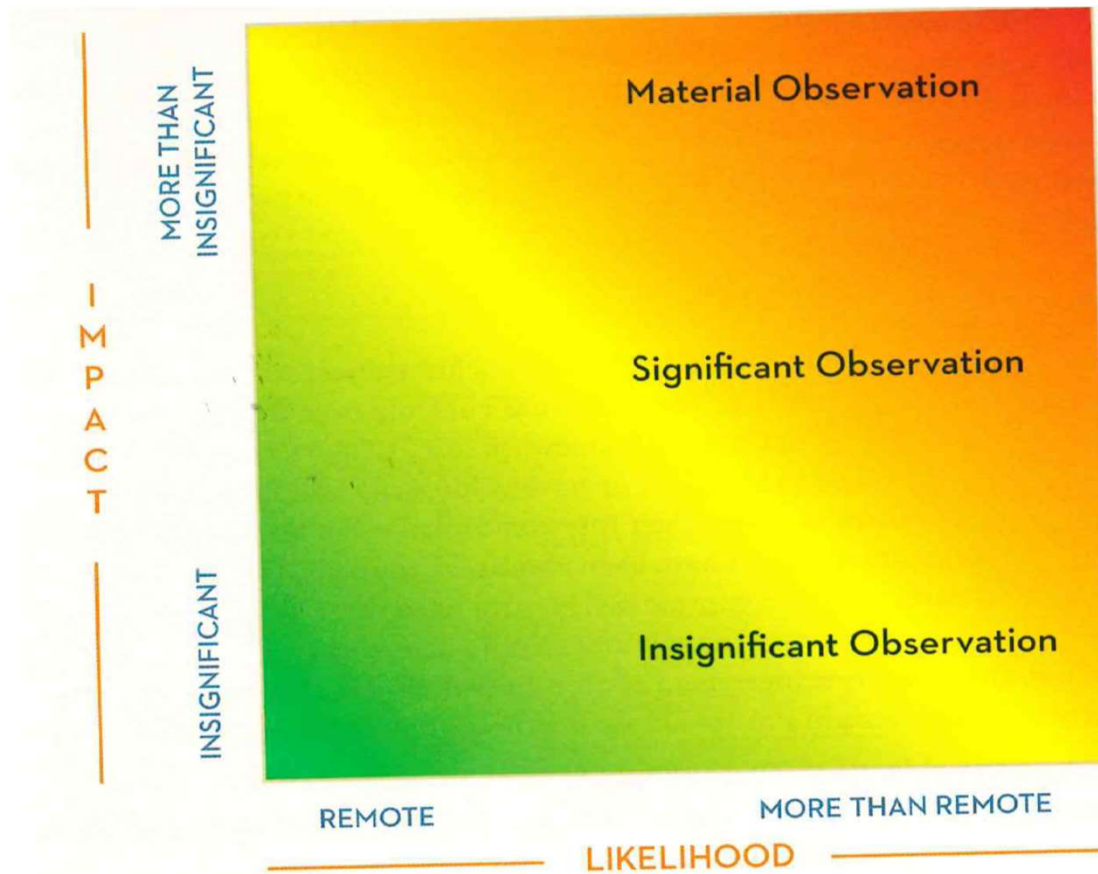
Communicating 1: Perform Observation Evaluation and Escalation Process

- **Observation Evaluation and Escalation Process:** Progressing through series of steps that allow internal auditors to evaluate factors affecting the observation relative to its impact, likelihood and classification

Observation Evaluation and Escalation Process



Three Types of Observations Based on Degree of Importance



Engagement Observations

- Must be written in specific format.
- 5 Elements:
 1. Criteria
 2. Condition
 3. Cause
 4. Effect
 5. Recommendation

Communicating 2: Conduct Interim and Preliminary Engagement Communications

- When an observation calls for immediate attention, Interim communication allows it to be brought to the attention of the appropriate individuals in a timely manner.
 1. Exit Meeting (Closing Conference) with Management
 2. Draft of the final communication
 3. Management Response
 4. IA Response: only if?

Communicating 3: Develop Final Engagement Communication

- To provide final engagement communication to management within 10 business days after completing the preliminary engagement communication (exit meeting)
- Well designed IA report include many sections (Observations are one of these sections)

C4: Distribute Final Engagement Communication

- CAE should
 - Review and approve
 - Distribute final engagement communication
 - Disclose information in a separate report and distribute to the BOD if the conditions being reported involve SM (illegal act/fraud)

C5: Perform Monitoring and Follow Up

- 3 cases
 - Not started
 - In progress
 - Completed
- When CAE believes that SM has accepted unacceptable risk:
 - CAE should discuss the matter with SM
 - If not resolved, CAE must report the matter to BOD for resolution

End of Chapter