

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 1 OF 9
-------------------------------	--	------------------------

AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS

DEFINITIONS –

AUDIT/ENGAGEMENT INFORMATION is all information gathered during the audit/engagement process that is considered to be within the audit/engagement scope and meeting the audit/engagement objectives.

AUDIT/ENGAGEMENT EVIDENCE represents all the facts obtained by the auditor which, after appropriate analysis and evaluation, adequately support findings and conclusions that meet the audit/engagement objectives. Audit/Engagement Evidence, which is cumulative in nature, includes information gathered from procedures performed during the course of planning and conducting the audit/engagement which originates from other sources, such as previous findings, recommendations, management responses, etc.. Audit/engagement Evidence must be *Sufficient* and *Appropriate*. *Sufficiency* is the measure of the quantity of audit evidence. *Appropriateness* is the measure of the quality of audit evidence, which is its relevance and its reliability in providing support for findings and conclusions.

Auditors should evaluate evidence taken as a whole and if the evidence is sufficient and appropriate for addressing audit objectives and supporting audit opinions reached. Audit risk and significance considerations should be used to assist the auditors with evaluating audit evidence. Professional judgment shall aid the audit staff in determining the sufficiency and appropriateness of evidence taken as a whole. When appropriate, auditors may use statistical and data analytic methods to analyze and interpret evidence to assess its sufficiency. Assessment of audit evidence taken as a whole should be reported on as a result of these techniques. In addition, and in appropriate circumstances, auditors can use the work of others in the work performance and document that the work was evaluated and was able to be relied upon. Evidence regarding this effort should include evaluation of the other auditors' qualifications and independence and should determine whether the scope, quality, and timing of the audit work performed by the other auditors is adequate for reliance in the context of the current audit objectives.

AUDIT/ENGAGEMENT OBJECTIVES are those objectives that are appropriate to the scope of the assignment. Any material facts that arise during the assignment that can be pertinent to the work undertaken may be used to modify the assignment or documented as future audit leads to be considered under other assignments.

AUDIT/ENGAGEMENT DOCUMENTATION is the resulting systematically formatted, standardized evidentiary record that contains required elements and becomes the archived support of the auditor's planning, decisions, analysis, evaluations, findings, conclusions and recommendations (whether or not they are contained in the final audit/engagement deliverable).

NOTE: Audit/Engagement Documentation can be in hardcopy or paperless form (electronic workpapers) and is also referred to as workpapers or working papers

PURPOSE –

- Provides verifiable support that the audit/engagement was planned and executed in compliance with professional auditing standards through a formal record of evidence;
- Acts as a basis for the documented supervisory review of the proficiency and competency of the work performed and the sufficiency and appropriateness of the evidence included; and
- Serves to uphold the assurance of quality verified by measures of internal review, self-assessment and external peer review.

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 2 OF 9
-------------------------------	---	------------------------------

APPROACH AND METHODOLOGY –

DOCUMENTATION PROCESS

To support the performance of audit/engagements and the resulting audit report, the Audit Division (AD) considers including the following documents in audit/engagement workpapers.

NON-AUDITOR GENERATED DOCUMENTS

Non-auditor generated documents may include, but are not limited to, the following:

- Administrative Procedures (e.g., AP 2-2 Vehicle Assignment and Use);
- Executive Orders (e.g., EO 1-41 Executive Vehicle Assignment/Allowance);
- Mayor’s Policies (e.g., MP 111.00 Temporary Appointments);
- Departmental Standard Operating Procedures (Departmental SOPs);
- State and/or Federal Regulations and Guidelines
- Process Flow Documentation (See Procedures; [220.30](#); [220.40](#); and [230.00](#));
- Correspondence (See [Procedure 260.00](#));
- Audit Reports and Audit Workpapers prepared by the Department (See [240.20](#));
- Monitoring Activity Documentation (e.g., documented departmental monitoring activities); and
- Response of Responsible Officials and applicable supporting documentation (management’s response to audit/engagement findings, recommendations, conclusions, and supporting documentation).

AUDITOR GENERATED DOCUMENTS

Required Audit Division Forms and Documentation include¹:

- Planning Memorandum (Required) (See Procedure [220.20](#); [240.10](#));
- Engagement Risk Document (Required) (See Procedure [220.30](#); [220.40](#); [240.10](#));
- Audit/Engagement Testing Documentation (See Procedure [230.00](#) for analysis and evaluation procedures that support the Audit Testing Documentation);
- Sampling Methodology Document(Required) (See Procedure [230.00](#); [240.10](#));

Other Audit Division Forms and Documentation include:

- Internal Control Questionnaires (See Procedure [220.40](#));
- Tests of Internal Control (Process Work Flow) Documentation – Narrative and/or Flowchart (Required) (See [220.30](#); [220.40](#); [230.00](#));
- Process Walk-Through Document (Required) (See Procedure [220.40](#));
- Audit/Engagement Notification Letters (Required) (See Procedure [260.00](#));
- Information Requests (See Procedure [260.00](#));
- Entrance Conference Summaries;
- Approved Audit/Engagement Programs (Required) (See Procedure [230.00](#));
- Audit Manager Checklist Items 6 & 9 (See Procedure [140.00](#))
- Correspondence (See Procedure [260.00](#), including letters, inter-office communication, status reports, and emails);
- Interview Summaries;
- Draft Audit/Engagement Reports (Required) (See Procedure [250.00](#))

¹ Non Audit Service Engagements may not include all Required Documents.



OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS <hr style="border: 0; border-top: 1px solid black;"/> LAST REVISED: MARCH 31, 2016	PAGE 3 OF 9
-------------------------------	---	------------------------

- Exit Conference Summaries; and
- Final Audit/Engagement Reports (Required) (See Procedure [250.00](#)).

NOTE: AD prepared documents that are included in audit/engagement workpapers should be identified as such. Where applicable, auditor generated workpapers should identify the purpose, scope, source, sampling methodology, work performed, and conclusion(s).

CONTENTS/ELEMENTS OF A WORKPAPER –

Every workpaper attachment should contain information in a heading format similar to the following:

HEADING

CITY OF HOUSTON OFFICE OF THE CITY CONTROLLER AUDIT DIVISION PROJECT ID: PROJECT TITLE: INCLUDE CLIENT(S) OR DEPARTMENT(S) IN TITLE PREPARED BY:	PAGE “X” OF “Y”
---	------------------------

- **PURPOSE** – The objective of the audit/engagement procedure addressing the associated risk related to the step identified in the audit program;
- **SCOPE** – Boundaries of the testing parameters (e.g. time period, specific accounts, and/or functions, etc.);
- **SOURCE** – Person, system, location of population and/or other related substantive data pertaining to the testing procedure;
- **SAMPLING METHODOLOGY** – Technique used to select data set for testing procedure from a pre-defined population. The technique should be statistical or judgmental. In some cases the entire population may be selected for review. The reason for 100% coverage would be noted in the workpaper. When a sample is selected for an internal control walk-through the sampling methodology is documented here. If a sample is selected for substantive testing, make reference here to the appropriate Sampling Methodology Document.
- **WORK PERFORMED** – Description of specific procedures executed including evidence and results that support conclusions rendered;
- **CONCLUSION** – Application of the auditor’s professional judgment, competency, analysis and evaluation of information gathered during the testing procedure;

NOTE: If the document is multiple pages, the lead/front page should contain the heading. The pages should be numbered as follows:

“X of Y” or “x/y” where “x” refers to current page number and “y” identifies the total number of pages. This information can be contained in the header or footer of the document page.

Note: Non-auditor generated documents that are included in audit/engagement workpapers should be identified as such (e.g. “**For Information Purposes Only**”, “City Ordinance”, “Departmental Policy”, etc.). The document must include the ‘Source’ and ‘Purpose’ and referenced to or embedded in the applicable workpaper. The note “For Information Purposes Only” would be noted on any research related to the audit engagement obtained including but not limited to (e.g., audit reports performed by other cities, articles, etc.).

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 4 OF 9
-------------------------------	---	--------------------

TICKMARKS –

Tickmarks are characters, text, or symbols that the auditor uses to signal a footnote, summary, annotation, reference, cross-reference, etc. Tickmarks are used at the auditor’s discretion, as long as they are adequately explained and consistent in application. Standard Tickmarks used by the Audit Division are as follows:

- ✓ (Marlett ‘a’) = Not an exception, OK, agrees, ties to testing conditions without exception
- Σ, <, ^ = sum, Cross foot, foot
- ✕ (Marlett ‘r’) = Exception noted (superscript or added number indicates multiple exceptions found – e.g. X¹, X1, or X-1, etc.)
- R = Recalculate(d)
- N/A, ■ (Marlett ‘g’) = Not applicable
- w/o/e, woe, (nen) = Without Exception (no exception noted)
- p/f/a, pfa = Pass Further Analysis
- p/b/c, pbc = Prepared/Provided by Client (auditee)
- im = Immaterial

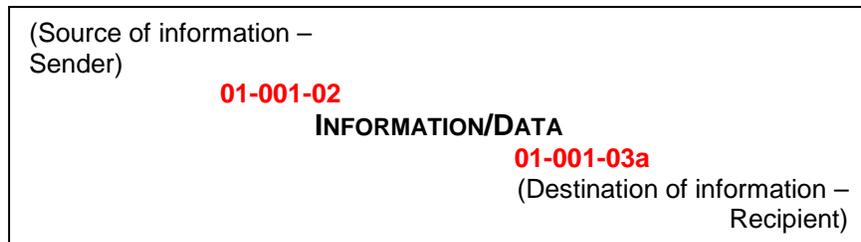
REFERENCING AND CROSS-REFERENCING –

[240.10 – Audit/Engagement Referencing and Cross-Referencing](#)

Referencing and Cross-referencing is a method of identifying the trail of information from its’ source, throughout the workpapers, and potentially, into the final audit/engagement deliverable. The system is based on the principles of addressing an envelope for mailing. Identified below is an example of documentation numbering.

(NOTE: This method may not be representative of the actual method used on an assignment – but merely indicates the type of system used to reference and cross reference audit documentation).

ILLUSTRATION:



This process facilitates review of work, responding to inquiries and quality assurance, providing support of competence and adequate evidence as a basis for conclusions and recommendations. Although this specific methodology was instituted for hardcopy documentation, the concept is still relevant in an automated auditing environment. In such cases, the following methods may be employed:

- Entering text references to workpaper numbers as shown above or
- Creating and using bookmarks and hyperlinks to connect the items electronically

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 5 OF 9
-------------------------------	--	--------------------

NOTE: The AD operates in an electronic workpaper environment. For specific instructions, application features and functionality, please refer to the supplemental information of this manual and the vendor’s software documentation.

FINDINGS –

When, as part of executing audit procedures, exceptions/findings are noted, workpapers are created that are specific to the issue(s) identified. The relevant information is gathered, documented and presented to responsible management, which serves to:

- Ensure proper communication of status and progress (See [Procedure 260.00](#));
- Verify that the associated facts, analysis and evaluation are accurate in relationship to the issue noted (See [Procedure 230.00](#));
- Allow for value-added recommendations to be developed during the course of the audit/engagement and provided to responsible management;
- Provide the opportunity for corrective action to be initiated with the ultimate goal of problem resolution; and
- Provide a mechanism for reporting evidence of fraud, waste and/or abuse.

Audit/Engagement findings may involve deficiencies in internal control, improved efficiencies, potential fraud, suspected illegal acts, violations of provisions of contracts or grant agreements, or abuse. A potential finding or set of findings is complete to the extent that the audit/engagement objectives are satisfied. When auditors identify deficiencies, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit/engagement objectives and subsequent reporting. The elements of an audit finding are discussed in [GAGAS 4.11 – 4.14](#).

DOCUMENTED ELEMENTS OF A FINDING –

CRITERIA: The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, policies, procedures, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

The following are some examples of criteria:

- Purpose or goals prescribed by law or regulation or set by officials of the audited entity;
- Policies and procedures established by officials of the audited entity;
- Technically developed standards or norms;
- Expert opinions;
- Prior periods' performance;
- Defined business practices;
- Contract or grant terms; and
- Performance of other entities or sectors used as defined benchmarks.

NOTE: The Criteria can also be referred to as “Background” as long as its content is sufficient to reflect the attribute or baseline to measure and conclude:

CONDITION: The factual situation that is determined to exist during the audit/engagement.

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 6 OF 9
-------------------------------	---	--------------------

CAUSE: The cause identifies the reason or explanation (or the factor(s) responsible) for the difference between the situation that exists (condition) and the required or desired state (criteria). This may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; lack of monitoring, or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

Additional considerations of ‘CAUSE’ for Performance Audits –

When the audit/engagement objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the audit/engagement occurred, they are referred to as "cause." Identifying the cause of problems may assist auditors in making constructive recommendations for correction. Because problems can result from a number of plausible factors or multiple causes, the recommendation can be more persuasive if auditors can clearly demonstrate and explain with evidence and reasoning the link between the problems and the factor(s) they have identified as the cause or causes. Auditors may identify deficiencies in program design or structure as the cause of deficient performance. Auditors may also identify deficiencies in internal control that are significant to the subject matter of the performance audit as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the "cause." Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes. Alternatively, when the audit/engagement objectives include estimating the program's effect on changes in physical, social, or economic conditions, auditors seek evidence of the extent to which the program itself is the "cause" of those changes.

EFFECT OR POTENTIAL

EFFECT: A clear, logical link is necessary to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit/engagement objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit/engagement, "effect" is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

NOTE: Condition, Cause and Effect can be contained in a section titled “Finding”

RECOMMENDATION:

The recommended solution determined in collaboration with the Client/Auditee, based on connecting the ‘Condition’ to the ‘Criteria’, which results from correcting the underlying ‘Cause(s)’. This can be accomplished in a number of ways, which may include a change in:

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS <hr style="border: 0; border-top: 1px solid black; margin: 2px 0;"/> LAST REVISED: MARCH 31, 2016	PAGE 7 OF 9
-------------------------------	--	--------------------

- Processes (addition, modification, or removal);
- Job responsibilities; and/or
- Objectives.

Generally, as part of the reporting process, responsible management replies to findings and recommendations. These responses are reviewed by the AD for effectiveness. Additional clarifications may be necessary, so communication with the auditee(s) may be iterative. The assessment, after review and coordination, is included in the final report (if appropriate).

INTERIM AND FINAL MANAGEMENT RESPONSE:

Description of client’s/auditee’s interpretation, position, and proposed resolution, which may include any action actually performed to correct the issue (if it was addressed prior to issuing the draft or final report), which may get incorporated into the body of the report similar to “action taken”.

AUDIT DIVISION ASSESSMENT

The AD assesses the adequacy of the Management Response for strategy and design of corrective action, timeliness and reasonableness of implementation, knowledge of responsible party for implementation and established/committed timeline for remediation to be complete. It’s important to distinguish that the focus of the AD assessment is on the remediation of the issues identified and not necessarily the recommendation offered. The AD assessment is of the sufficiency of the remediation process, while the recommendation is a measure of AD’s understanding of the business process, function, system and the value of the suggested remediation.

DOCUMENTATION & WORKPAPER REVIEW –

There are at least two levels of review for each project and a minimum of one for each document included as evidence. First, the Planning Memorandum and the ERD are prepared by the Auditor and reviewed by the Audit Manager and/or City Auditor CA before field work commences. Each workpaper will be reviewed by the project supervisor (or Manager) of the engagement and comments for follow-up will be provided. The auditor who prepared the workpapers will clear comments accordingly. If applicable, the assigned Audit Manager will provide the next level of review for proficiency, due professional care and judgment of the auditor in executing the procedures. The Audit Manager will also review for sufficient and appropriate evidence of the documentation and/or workpaper content, and will provide review comments to be addressed and cleared. These steps represent the evidence that supports the conclusions related to the audit objectives and allows an audit trail for another auditor to be able to re-perform the procedures and reasonably draw the same conclusion(s) as those rendered by the audit/engagement team. The Quality Assurance function reviews the project using the same checklist as the External Peer Review team uses as a final closeout process. (See Policy 170.00, Quality Control & Assurance and Procedure 270.00, Quality Assurance and Improvement Program.)

OPERATIONAL PROCEDURES	Procedure No. 240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 8 OF 9
-------------------------------	---	--------------------

RECORD RETENTION –

The AD maintains records in electronic and hardcopy formats such as:

- Prior audit/engagement workpapers (including reports);
- Historical files for employment, performance, professional education, etc.;
- Fraud communications; and
- Professional Services contracts, communications.

WORKPAPERS

The City record retention policy (Administrative Policy 8-5, paragraph 6.1) requires the AD to maintain audit/engagement workpapers for a minimal period of time in accordance with the policy. The AD has the discretion to hold them indefinitely.

Each auditor has the discretion and responsibility to maintain their own files of additional supporting information, as necessary.

AUDIT/ENGAGEMENT REPORTS (DELIVERABLES)

The City Record Retention Policy (AP 8-5) requires the AD to retain Audit Reports permanently.

NOTE: The standards set for decisions made related to the audit workpaper software are outlined in the audit software implementation documents. This includes project/audit/engagement set-up, document sequencing, numbering, risk assessment, auditable entities, phases, cycles, referencing, cross-referencing, findings, etc..

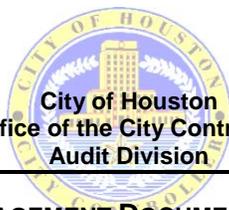
RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE

GAGAS:

GENERAL STANDARDS	<u>3.107</u>
FINANCIAL AUDITS	4.10 – 4.16, 6.79
ATTESTATION ENGAGEMENTS	5.16 – 5.17
PERFORMANCE AUDITS	6.06, 6.41, 6.77 – 6.85
ELEMENTS OF A FINDING	4.10, 5.11, 6.73, 7.14
CRITERIA	4.11, 5.12, 6.37
EXAMPLES OF CRITERIA	6.37, A6.02
CONDITION	4.12, 5.13, 6.75
CAUSE	4.13, 5.14, 6.76
EFFECT OR POTENTIAL EFFECT	4.14, 5.15, 6.77

IIA STANDARDS

2200 ENGAGEMENT PLANNING
2201 PLANNING CONSIDERATIONS
2201.A1
2201.C1
2210 ENGAGEMENT OBJECTIVES
2210.A1
2220 ENGAGEMENT SCOPE
2230 ENGAGEMENT RESOURCE ALLOCATION
2240 ENGAGEMENT WORK PROGRAM
2240.A1
2240.C1
2300 PERFORMING THE ENGAGEMENT



OPERATIONAL PROCEDURES	Procedure No.	240.00 AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS LAST REVISED: MARCH 31, 2016	PAGE 9 OF 9

- 2310 IDENTIFYING INFORMATION
- 2320 ANALYSIS AND EVALUATION
- 2330 DOCUMENTING INFORMATION
 - 2330.A2
 - 2330.C1
- 2340 ENGAGEMENT SUPERVISION

IIA PRACTICE ADVISORIES

- 2130-1 ASSESSING THE ADEQUACY OF CONTROL PROCESSES
- 2200-1 ENGAGEMENT PLANNING
- 2240-1 ENGAGEMENT WORK PROGRAM
- 2300-1 USE OF PERSONAL INFORMATION IN CONDUCTING ENGAGEMENTS
- 2320-1 ANALYTICAL PROCEDURES
- 2330-1 DOCUMENTING INFORMATION
- 2330.A2-1 RETENTION OF RECORDS

CHANGE HISTORY

Chg #	Date	Section	Description/Reason
1	3/31/2016	Approach and Methodology and Due Professional Care	To address concerns brought about in preparation for the 2014 Peer Review on the subject of Evidence Taken as a whole
2	3/31/2016	Other Sections	Editorial updates and clarifications.
