

# INTERNAL AUDIT THE AUDIT PROCESS

University of North Alabama

The most successful audit projects are those in which the department and Internal Audit Personnel have a constructive working relationship. Our objective is to have the department's continued involvement at every stage, so that they understand what we are doing and why we are doing it. Although every audit project is unique, the audit process is similar for most engagements and normally consists of four stages:

- Preliminary Review
- Field Work
- Audit Report
- Follow Up Review

Departmental 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 the usual routine. One of our key objectives is to minimize this time and avoid disrupting the on-going departmental activities.

## PRELIMINARY REVIEW

- **ANNOUNCEMENT LETTER.** The department is informed of the audit project through an announcement letter from the Controller. This letter communicates the scope and objectives of the audit and the personnel assigned to the project.
- **INITIAL MEETING.** During this meeting, the client describes the department or procedure to be reviewed, the resources involved (personnel, facilities, equipment, funds), and other relevant information. Member(s) of the Internal Audit Department will meet with the individual directly responsible for the department under review and any staff members he/she wishes to include.
- **PRELIMINARY REVIEW.** First we gather information about the processes. We then review and evaluate the existing internal control structure (if present) and identify the objectives of the fieldwork. Finally, we plan the remaining audit steps necessary to achieve these objectives.
- **PRELIMINARY SURVEY.** In this phase relevant information will be gathered about the department in order to obtain a general overview of operations. A member of the Internal Audit Department will speak with key personnel followed by a review of reports, files and other sources of information.
- **INTERNAL CONTROL REVIEW.** The Internal Audit Department will review the department's internal control structure which uses a variety of tools and techniques to gather and analyze information about the operation. This review helps to determine the areas of highest risk and enables the design of tests to be performed in the field work section.

## FIELD WORK

The field work concentrates on transaction testing and informal communications. It is during this phase that the Internal Audit Department determines whether the controls identified during the preliminary review are operating properly and in the manner described by the department. The field work stage concludes with a list of significant issues from which the Internal Audit Department will prepare a draft of the audit report.

- **TRANSACTION TESTING.** After completing the preliminary review, the Internal Audit Department performs the procedures in the audit program. These procedures usually test the major internal controls and the accuracy and propriety of the transactions.
- **ADVICE AND INFORMAL COMMUNICATIONS.** As field work progresses, the Internal Audit Department discusses any significant issues with the client. Hopefully, the client can offer insights and collaborate to determine the best method of resolving the issue. Usually these communications are oral. However, in more complex situations, memos can be written in order to ensure full understanding by the department and the auditor.
- **AUDIT SUMMARY.** Upon completion of the fieldwork, the Internal Audit Department summarizes the audit issues, conclusions, and action to be taken (as agreed upon by both the IAD and the department) for the audit report discussion draft.

## AUDIT REPORT

Our principal product is the final report in which we express our opinions, present the audit issues, and action to be taken for improvements. To facilitate communication and ensure that the final report is practical, The Internal Audit Department will discuss the rough draft with the department prior to issuing the final report.

- **DISCUSSION DRAFT.** At the conclusion of field work, the Internal Audit Department will draft the report. The Associate Vice President for Business and Financial Affairs will thoroughly review the audit working papers and the discussion draft before it is presented to the department for comment. This discussion draft is prepared for the department's management and is submitted for review before the exit conference.
- **EXIT CONFERENCE.** When the Associate Vice President for Business and Financial Affairs has approved the discussion draft, the Internal Audit Department will meet with department management to discuss the issues and text of the draft. At this meeting, the department will have the opportunity to comment on the draft, and the group will work to reach an agreement on the audit issues.
- **DRAFT REPORT.** The Internal Audit Department will prepare a formal draft, taking into account any revisions resulting from the exit conference and other discussions. When the changes have been reviewed by The Associate Vice President for Business and Financial Affairs and the department, the draft report is issued.
- **TRANSMITTAL LETTERS.** The first page of the draft report is a letter requesting the department's review and responses to the report. Responses are then incorporated into the Final Report.

- **FINAL REPORT.** The Internal Audit Department prints and distributes the final report to the department's management, reporting supervisor, and the appropriate Vice President and any other senior University management. This report is primarily for internal University management use. The approval of the Associate Vice President for Business and Financial Affairs is required for release of the report outside of the University.

## **FOLLOW UP REVIEW**

Within approximately one year of the final report, the Internal Audit Department will perform a follow-up review to verify the resolution of the issues noted in the report. During this review, it will be determined whether the desired result was achieved concerning the audit issue. All unresolved issues (including additional actions to be taken) will be discussed and reported to department Management, the appropriate Vice President, and to the Associate Vice President for Business and Financial Affairs.

- **FOLLOW UP REPORT.** The review will conclude with a follow-up report, which lists the actions taken by the department to resolve the original report issues. Unresolved issues will also appear in the follow-up report and will include a brief description of the issue, additional action to be taken, current condition, and the continued exposure of risk to the University.