



Internal Audit Process

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Internal Audit Process



01: Planning Phase



- Send written **engagement notice** of audit start
- Hold **Entrance Conference**, the initial meeting with applicable TMRS personnel about conduct of the audit
- **Gain an understanding** of the audit topic by researching laws and policies/procedures, reviewing previous audit reports and documents, and conducting preliminary interviews
- Conduct engagement-level **risk assessment** to identify objectives, scope, and methodology
- Develop **audit procedures** for accomplishing audit objectives and document in an audit program

Planning: Terms and Definitions

- 📖 OBJECTIVES – what the audit is intended to accomplish or the question the auditor seeks to answer
- 📖 SCOPE – boundary of the audit, including subject matter, period of time reviewed, and locations to be included
- 📖 METHODOLOGY – nature and extent of audit procedures for gathering and analyzing evidence to address objectives
- 📖 AUDIT PROCEDURES – specific steps and tests auditors perform to address the objectives

02: Fieldwork Phase



- Request **data and information**

Perform **audit procedures** from audit program

- Develop **findings** and preliminary recommendations

- Obtain **client feedback** on findings and recommendations

- Review additional client information and **update findings** and recommendations



Fieldwork: Terms and Definitions

- ➥ WORKING PAPERS OR AUDIT DOCUMENTATION – records all audit evidence and supports audit work done to demonstrate work was performed in accordance with relevant auditing standards
 - ➥ Observation – physical inspection, walk-throughs
 - ➥ Inquiry – interviews with auditee and related parties
 - ➥ Verification – establish the accuracy, reliability, or validity of something (e.g., count, compare, confirm, examine, reconcile, recompute, trace)
 - ➥ Analysis – qualitative and quantitative calculations, tests, and surveys

Fieldwork: Terms and Definitions

 FINDING – the results of the evaluation of the collected audit evidence against audit criteria. A finding may indicate strengths and deficiencies in internal controls; compliance or noncompliance with laws, regulations, or contracts;

Elements of a finding:

- Criteria – What should be.
- Condition – What is.
- Cause – Why the condition differs from criteria.
- Effect – The consequence or opportunity foregone of difference between condition and criteria.
- Recommendation – Actions to remedy the cause.

03: Reporting Phase



- Auditor **drafts report** that is accurate, objective, clear, concise, constructive, complete, and timely

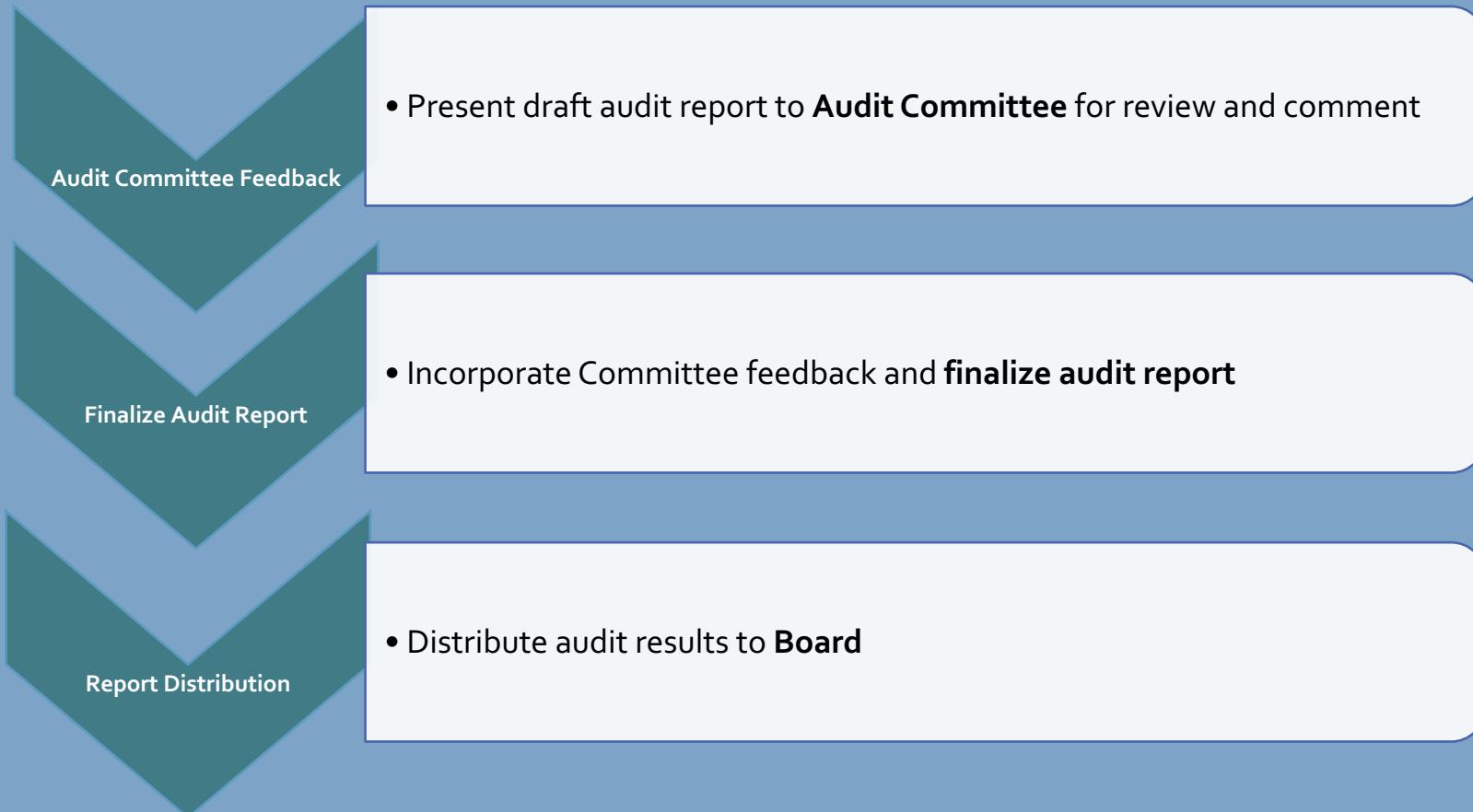
Experienced auditor **reviews draft report** and key supporting documentation

- Management reviews the draft report and provides feedback and **management response**

Hold **Exit Conference** to obtain client feedback on draft audit report and answer questions about implementing recommendations

- Compile management's response and incorporate any other suggestions into **updated report draft**

03: Reporting Phase



Reporting: Terms and Definitions

 MANAGEMENT RESPONSE – written response to audit findings. The response should indicate:

- Whether management agrees with finding and agrees to implement recommendation
- A brief description of the corrective action plan
- The person responsible for implementing the action plan
- Timeframe for completing the action plan

 NON-REPORTABLE COMMENT OR NON-SIGNIFICANT DEFICIENCIES – issues generally minor in nature or scope communicated only to management

Reporting Phase

General Report Content

- Audit report title
- Objectives, scope, and methodology
- Background
- Recognition
- Engagement rating, conclusions, and observations (also referred to as findings)
 - Perspective in terms of nature and extent of the issues
 - Limitations on reliability or validity of evidence
- Management's response (corrective action, activity owner, target date for completion)
- Statement about compliance with auditing standards
- Distribution list



FOLLOW-UP

Based on timeframes in the action plans, a follow-up is performed to ensure that the required measures have indeed been implemented.

04: Follow-up Phase



- Log findings, recommendations, and corrective action plans.

Request **status updates** on corrective action plans from Senior Management

- Verify management assertions for **high/moderate** priority level findings

Report on status of implementing prior-year recommendations to Senior Management and the Board, including management's acceptance of risk

Closed: Fully Implemented, Alternative Action Taken, Do Not Intend to Implement, No Longer Applicable

Active: Partially Implemented, Not Implemented

Follow-up: Terms and Definitions

- 📖 MANAGEMENT ASSERTION – claims made by members of management regarding certain aspects of business
- 📖 COMMUNICATING THE ACCEPTANCE OF RISK– if the auditor becomes aware that management has accepted a level of risk that is unacceptable to the organization, the risk must be communicated to the Board.

Highly significant risks that the auditor may judge goes beyond TMRS' tolerance level include:

- Those that may harm TMRS' reputation
- Those that could harm people
- Those that would result in significant fines, limitations on business conduct, or other financial/contractual penalties
- Material misstatements
- Fraud or other illegal acts
- Significant impediments to achieving strategic objectives