TMRS Internal Audit Process

Internal Audit Department

SANDRA VICE
Director of Internal Audit, TMRS
Internal Audit Process

01 *Planning*
In the planning phase, the audit staff reviews any past audit work, looks over literature on the area being reviewed, and makes a preliminary review of the unit budget, actual revenues, and expenses.

02 *Fieldwork*
The fieldwork phase is typically the lengthiest part of the audit, the audit staff gathers information about the auditee's operations, gains an understanding of the unit's functions, and identifies both strengths and weaknesses.

03 *Reporting*
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*
All fieldwork results are compiled, presented, and discussed with the client. The client must provide action plans with timeframes that address all recommendations. A final summary report then goes to Senior Management and the Audit Committee for review.
01: Planning Phase

- **Notice**
  - Send written *engagement notice* to Board and Senior Management of audit start

- **Client Meeting**
  - Hold *Entrance Conference*, the initial meeting with applicable TMRS personnel about conduct of the audit

- **Research**
  - Gain an understanding of the audit topic by researching laws and policies/procedures, reviewing previous audit reports and documents, and conducting preliminary interviews

- **Risk Assessment**
  - Conduct engagement-level *risk assessment* to identify objectives, scope, and methodology

- **Audit Program**
  - Develop *audit procedures* for accomplishing audit objectives and document in an audit program
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

- **Data Request**: Request data and information

- **Audit Procedures**: Perform audit procedures from audit program

- **Conclusions**: Develop findings and preliminary recommendations

- **Client Meeting**: Obtain client feedback on findings and recommendations

- **Audit Procedures**: Review additional client information and update findings and recommendations
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
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 has period of time to review draft report and provide 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

- **Audit Committee Feedback**
  - Present draft audit report to **Internal Audit Committee** for review and comment

- **Finalize Audit Report**
  - Incorporate Committee feedback and **finalize audit report**

- **Board Presentation**
  - Present audit results to **Board**

- **Report Distribution**
  - **Distribute** final audit report
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

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
04: Follow-up Phase

- **Log Prior Audits**: Log findings, recommendations, and corrective action plans into **Corrective Action Reporting System (CARS)**

- **Management Update**: Request **status updates** on corrective action plans from Senior Management

- **Follow-up Work**: Verify management assertions for **high/moderate** priority level findings

- **Report Results**: 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