

OPERATIONAL PROCEDURE	PROCEDURE NO. 220.20 AUDIT/ENGAGEMENT PLANNING <hr/> LAST REVISED: <i>AUGUST 25, 2022</i>	PAGE 1 OF 5
----------------------------------	--	------------------------

AUDIT/ENGAGEMENT PLANNING

DEFINITION –

AUDIT/ENGAGEMENT PLANNING – A strategic process that reasonably considers all known relevant factors by which a plan of action can be constructed.

Generally, audit/engagement planning is a process which begins with the approved Annual Audit Plan, re-initiates at the announcement of a project and considers various inputs, such as entity structure, function, financial and/or operational performance, environment, legislation, regulations, resources (including audit staff assignments), objectives, risks and controls. Decisions are then made that impact the audit/engagement objectives and specific procedures to gather, analyze and evaluate information to render conclusions, identify findings, propose recommendations and report upon.

PURPOSE –

- Systematically and strategically identifies:
 - Key elements (objectives);
 - Specific procedures to address objectives, gather evidence and support the documented conclusions;
- Document decisions and adjustments made throughout the engagement; and
- Provides a basis for adequate control and review (engagement quality and continuous improvement).

BACKGROUND –

Each project begins with audit/engagement planning, which includes preliminary gathering and analysis of information on the entity, process, function, or activity which is to be audited, reviewed, or examined. The goal is to obtain an understanding of the ‘auditee’ as it relates to the reason for the engagement (overall engagement objectives). This process also involves identifying specific and measurable criteria, where required. Throughout the audit/engagement planning phase, engagement risk is identified and audit risk is defined with the goal to mitigate the residual audit risk to an acceptable level.

Per [GAGAS 8.16](#), “*Audit Risk is the possibility that the auditors’ findings, conclusions, recommendations, or assurance may be improper or incomplete as a result of factors such as evidence that is not sufficient or appropriate, an inadequate audit process, or intentional omissions or misleading information because of misrepresentation or fraud.*”

NOTE: CAATs are used in analysis where appropriate.

APPROACH AND METHODOLOGY -

The planning process is interactive and dynamic, rather than linear or sequential. It is commonly modified throughout the project as information and results are obtained, assessed, and conclusions are rendered. Auditor judgment and audit/engagement team communication are critical elements in the overall project. For instance, information

OPERATIONAL PROCEDURE	PROCEDURE NO.	PAGE 2 OF 5
	220.20 AUDIT/ENGAGEMENT PLANNING LAST REVISED: <i>AUGUST 25, 2022</i>	

gathered may expand the scope, which will affect the program, procedures and resources (staff required, budget, etc.), or it may be decided to refine the scope and address additional items under a separate project or follow-up.

AUDIT TEAM MEETINGS

The audit/engagement team is assigned by the City Auditor, with input from the audit managers. Consideration is given to auditor independence when assigning staff.

The team assembles for initial planning and strategy meetings (sometimes comprised of “Brainstorming Sessions”) which involve preliminary discussions of the key components of risk (including fraud, waste and/or abuse), objectives and scope. The results of Team Meetings are documented in the Planning Memorandum (See [Procedure No. 240.20](#)). The Planning Memorandum is a required AD document and minimally yields identification of the following:

- Engagement risk, audit risk, and approach to ARA;
(See [Procedure No. 220.30](#))
- Action items (action item, assigned to, assigned date, commitment date, and closed date)
- General control structure or approach to internal control assessment;
- Audit/engagement objective:
The overall objective is found in the Annual Audit Plan and is general in nature. This allows flexibility in scope and refinement based on results of preliminary and interim assessments;
- Audit/engagement cycles/functions:
Based on the audit/engagement, the approach and methodology are decided and audit/engagement cycles may be identified. This creates a map for developing the audit/engagement program and serves as a template for creating the project in the electronic workpapers;
- Audit/engagement specific objectives:
Team meetings allow for more comprehensive identification of engagement objectives related to cycles, functions, and/or areas as identified above; and
- Audit/engagement scope.
(See [Procedure No. 230.00](#))

PRELIMINARY SURVEY AND ANALYSIS

Part of the planning process involves obtaining and analyzing relevant information on the entity, process, function or activity (using CAATs where appropriate). Common sources and areas to consider are:

- Professional standards (GAGAS, IIA, AICPA, etc.);
- Applicable federal, state, or local laws and/or regulations;
- City Code of Ordinances;
- Administrative Policies, procedures and Executive Orders;
- Organizational charts and job descriptions;
- Existing flow charts or documented business and information processes;

OPERATIONAL PROCEDURE	PROCEDURE NO. 220.20 AUDIT/ENGAGEMENT PLANNING <hr/> LAST REVISED: <i>AUGUST 25, 2022</i>	PAGE 3 OF 5
----------------------------------	--	------------------------

- Nature and profile of the program/activity and user needs ([GAGAS 8.36 – 8.38](#));
- Financial, statistical data, information technology and systems, including those of relevant third parties;
- Prior audits; and
- Correspondence.

The results of this process become an integral part of team meetings which further refine the strategy for the engagement. These elements are also inputs to the assessments of risk and internal controls, because they identify the risk and control environment specific to the activity or audit/engagement. Audit Division staff are encouraged to provide analysis and evaluations that are proactive in nature. As staff work through the identification of the risk and control environment, they should seek to offer new insights and consider the future impact of the auditee/client's action or inaction.

DOCUMENTING RESULTS AND OUTPUT OF AUDIT/ENGAGEMENT PLANNING –

The audit/engagement planning documentation developed by the audit team is comprised of (but not limited to):

- Planning Memorandum (Required) (See [Procedure No. 220.20](#));
- Engagement Risk Document (ERD) (Required) (See [Procedures 220.30; 220.40; 240.10](#));
- Internal control questionnaires (See [Procedure No. 220.40](#));
- Process flow documentation – narrative and/or flowchart (Required) (See [Procedures 220.30; 220.40; 230.00](#));
- Tests of internal control (process walk-through) documentation (Required) (See [Procedure No. 220.40](#));
- Sampling methodology (Required) (See [Procedures 230.00; 240.10](#));
- Audit/engagement notification letters (Required) (See [Procedure No. 260.00](#));
- Information requests (See [Procedure No. 260.00](#));
- Audit/engagement programs (Required) (See [Procedure No. 230.00](#));
- Correspondence (See [Procedure No. 260.00](#), including letters, inter-office communication, status reports, and emails);
- Interview summaries;
- Audit/engagement testing documentation (See [Procedure No. 230.00](#) for analysis and evaluation procedures that support the audit testing documentation);
- Entrance Conference agenda and notes (See [Procedure No. 260.00](#));
- Audit/engagement objectives, scope and program (Required) (See [Procedure No. 230.00](#)).

The importance of the planning process **cannot** be overstated. It involves obtaining and analyzing existing information for the purpose of developing specific procedures that address relevant objectives within a defined scope while reducing audit risk to a tolerable level. The most critical 'output' of this process is an efficient audit/engagement program (See [Procedure No. 230.00](#)) which is the blueprint of the steps to be executed. The documented objectives of the audit/engagement are part of the Audit/engagement program and are linked to specific steps. This is a critical element that joins:

OPERATIONAL PROCEDURE	PROCEDURE NO. 220.20 AUDIT/ENGAGEMENT PLANNING <hr/> LAST REVISED: AUGUST 25, 2022	PAGE 4 OF 5
----------------------------------	--	------------------------

Audit/Engagement Objectives → Risks → Internal Controls → Risk Ranking → Audit/Engagement Program Procedures/Steps

Because the planning process involves making decisions that affect actions throughout the rest of the project or engagement it emphasizes the need for involvement by all members of the audit/engagement team. While the client/auditee does not generally attend team planning meetings, their input is considered and is sometimes the catalyst for the audit/engagement. The audit manager provides review and approval of decisions made throughout planning and performing the engagement, including the planning documents and audit/engagement program.

Planning (both the audit/engagement plan and the Annual Audit Plan), RM, ERA, ARA, and ICA are all interactive. The audit/engagement plan is dependent upon assessments of risk and the associated internal controls. For more information on:

- Risk, RM, ERA, See [Procedure No. 220.30](#)
- ICA, See [Procedure No. 220.40](#)

RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE

GAGAS (YELLOW BOOK)

FINANCIAL AUDITS	Chapter 6
ATTESTATION ENGAGEMENTS	Chapter 7
PERFORMANCE AUDITS	8.03 - 8.86, 8.132, 8.135

IIA STANDARDS (RED BOOK)

2010 PLANNING
2020 COMMUNICATION AND APPROVAL
2030 RESOURCE MANAGEMENT
2050 COORDINATION
2100 NATURE OF WORK
2110 GOVERNANCE
2120 RISK MANAGEMENT
2130 CONTROL
(ENGAGEMENT PLANNING)
2200 ENGAGEMENT PLANNING
2201 PLANNING CONSIDERATIONS
2210 ENGAGEMENT OBJECTIVES
2210.A1
2220 ENGAGEMENT SCOPE
2230 ENGAGEMENT RESOURCE ALLOCATION
2240 ENGAGEMENT WORK PROGRAM

IIA IMPLEMENTATION GUIDANCE

2010 PLANNING
2020 COMMUNICATION AND APPROVAL
2030 RESOURCE MANAGEMENT
2050 COORDINATION
2100 NATURE OF WORK
2110 GOVERNANCE
2120 RISK MANAGEMENT

OPERATIONAL PROCEDURE	PROCEDURE NO. 220.20 AUDIT/ENGAGEMENT PLANNING <hr/> LAST REVISED: <i>AUGUST 25, 2022</i>	PAGE 5 OF 5
----------------------------------	---	------------------------

2130 CONTROL
 2200 ENGAGEMENT PLANNING
 2201 PLANNING CONSIDERATIONS
 2210 ENGAGEMENT OBJECTIVES
 2220 ENGAGEMENT SCOPE
 2230 ENGAGEMENT RESOURCE ALLOCATION
 2240 ENGAGEMENT WORK PROGRAM

CHANGE HISTORY

CHG #	DATE	SECTION	DESCRIPTION/REASON
1	7/1/2019	Relevant Professional Standards	Updated to reflect updates to Professional Standards
2	8/25/2022	Preliminary Survey and Analysis	Updated to add clarifying language to address peer review observations.
