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AUDIT/ENGAGEMENT PLANNING

DEFINITION –

AUDIT/ENGAGEMENT PLANNING (EP) – Strategic process that reasonably considers all known relevant factors by which a plan of action can be constructed

Generally, EP 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, laws, 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 and support the documented conclusions;
- Acts as an adjustable blueprint that serves as a point of reference and documents 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 EP, 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 EP phase, Engagement Risk is identified and Audit Risk (AR) is defined with the goal to mitigate the residual AR 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 -

It is necessary to mention that the EP 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 gathered may expand the scope, which will affect the program,

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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 CA, with input from the Audit Managers, which involves the Lead Auditor and other Staff Auditors as necessary. Consideration is given to Auditor Independence when assigning staff.

The team assembles for initial EP 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 IAD document and minimally yields identification of the following:

- Engagement Risk, Audit Risk, and approach to ARA;
(See [Procedure No. 220.30](#))
- Action Items Schedule (Action Item, Assigned To, Assigned Date, Commitment Date, and Closed Date)
- General Control Structure or Approach to ICA;
- 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:
The 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 EP 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/Job Descriptions;
- Existing Flow Charts or Documented Business and Information Processes;

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- Nature and Profile of the Program/Activity and User Needs ([GAGAS 8.36 – 8.38](#))
- Financial, Statistical Data, Information Technology & 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 RA and ICA, because they identify the risk and control environment specific to the activity or audit/engagement.

DOCUMENTING RESULTS AND OUTPUT OF EP –

The EP documentation developed by the Audit Team is comprised of (but not limited to):

- Planning Memorandum (Required) (See [Procedure No. 220.20](#));
- Engagement Risk Document (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 & Notes (See [Procedure No. 260.00](#));
- Audit/Engagement Objectives, Scope, and Program (Required) (See [Procedure No. 230.00](#)).

The importance of the EP 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 the AR to a tolerable level. Having stated this, the most critical ‘output’ of the EP process is an efficient Audit/Engagement Program (See [Procedure No. 230.00](#)) and 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:

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| <i>Audit/Engagement Objectives→Risks→Internal Controls→Risk Ranking→Audit/Engagement Program Procedures/Steps</i> |
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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 EP and the Annual Audit Plan), RM, ERA, ARA, and ICA are all interactive. EP 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

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

IIA STANDARDS (ANNUAL AUDIT PLAN)

- 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
- 2130 CONTROL
- 2200 ENGAGEMENT PLANNING



City of Houston
Office of the City Controller
Audit Division

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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 |
