

## Chapter 10

### AUDIT WORKING PAPERS

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## Chapter 10 - Audit Working Papers

### 1000. Purpose

1. This chapter prescribes the standards and procedures for the preparation, contents, use, retention, and disposition of audit working papers.
2. The diversity of audit assignments does not permit the establishment of a single system or design of working papers to be used throughout the auditor's office but conformity as to quality and standards should exist.

### 1001. Importance of Working Papers

1. Working papers are instruments vital to the successful accomplishment of all audit assignments performed. The working papers provide documented evidence of an examination and evaluation and provide a connecting link between the work which is performed and the final audit report. Hence, their importance cannot be overly emphasized.
2. To a major extent, every auditor is judged by his skill and ability in preparing working papers. When working papers are prepared in good form with proper attention to layout, design, and legibility, with complete headings, explanations of sources, and verification of work performed, they create a feeling of confidence in the ability of the staff member. Working papers should always convey an impression of system and order and conscientious attention to detail, coupled with a clear distinction between the important and the trivial.
3. Another test of good working papers occurs when it is necessary for one staff member to leave a partially completed assignment and turn it over to another staff member. If the latter can proceed without confusion then the working papers have stood the critical test of being able to stand on their own.
4. Every auditor will be expected to continuously strive for the highest standards of excellence in the preparation of working papers.

### 1002. Confidential Nature of Working Papers

1. Information obtained through audits should be treated as confidential not only as to outsiders but also as to employees of the entity audited who would not otherwise have access to the information. Further, the working papers include information concerning the scope of the examination and the extent of selective tests made, and this information should not be available to the staff of the audited entity. Therefore, audit working papers should be safeguarded at all times against the possibility of their being examined by unauthorized persons.
2. Client or outside agency request to review Audit and Management Services work papers must be approved by an appropriate official.

### 1003. Purposes Served By Work Papers

1. Audit working papers serve four major purposes:
  - A. They constitute a permanent record of the objectives and scope of the audit, as well as the work performed during the audit. Work papers organize and coordinate all phases of the audit.
  - B. They contain the back-up material in support of the audit findings, conclusions, opinions, and comments.
  - C. They contain the basic material from which the audit report is prepared.
  - D. They reflect the quality and reliability of the work performed by the auditor and substantiate and explain in detail the opinions and findings presented to University management.
  
2. Working papers have a number of additional uses both during and after the audit. These are to control audit progress by showing the auditor what audit procedures have been completed and what audit procedures have not been completed. Working papers also provide:
  - A. A basis for study of patterns and trends.
  - B. Aid in the internal audit staff's professional development.
  - C. Detailed supporting material for use in discussion with operating personnel.
  - D. A source of evidence in litigation and in administrative actions.
  - E. A basis for supervisory review and evaluation of audit performance.
  - F. A permanent record for use in planning and carrying out future audits.
  - G. Demonstrate that auditors have complied with the Standards for the Professional Practice of Internal Auditors.

#### 1004. Planning and Preparing Working Papers

1. The preparation of audit working papers must be planned so that they will substantively fulfill the purposes mentioned in Section 1003. An audit program provides much help in the planning of working papers. The program reflects the objectives of the audit and the nature of the information required. Thus, many of the areas of inquiry are identified as well as the general types of working papers that will be needed to record the work performed in those areas. However, methods of operations are never precisely the same in two "like" organizational elements, nor are the circumstances under which the operations are carried out identical. For this reason, audits of similar organizations and activities should not be performed exactly alike nor should stereotyped working papers be prepared.
2. Each section of the working papers must be planned to satisfy some requirement of the audit program. When the audit is completed, the working papers should contain data needed to fulfill all of the objectives of the audit. Adequate planning of working papers requires the auditor to:
  - A. Determine the nature and extent of the information that will be needed to comply with the audit objectives and to plan the format and preparation of working papers that will be needed to record this information.
  - B. Index and file all work papers according to Audit Workpaper Checklist. (See Exhibit 10-1.)
  - C. Devise legends (symbols) and a method of cross-referencing. Where applicable, the standard tickmarks developed by Audit and Management Services should be used.
3. Thought should be given in preparation of working papers to their potential use as exhibits in an audit report.

#### 1005. Principles and Methods of Documentation

1. Working papers are the basis on which the entire audit rests. Since these papers are, in fact, the documentation of the audit, thoroughness in their preparation is essential.
2. Describing the Work Performed. By fully describing the work you have performed in your working papers, you are able to render a complete accounting of the scope and depth of your coverage. Each working paper should identify the following:
  - A. Scope. Your conclusions usually result from selective tests. By clearly showing the scope of the work performed, you are able to support your conclusions and where probability sampling is used, support the projection of conclusions drawn from selective tests to the entire subject area under audit.

In the examination of documents, the scope must identify the size of the sample, the universe from which the sample is drawn, the method of selection, and the basis for these decisions. When sampling methods are used, the sampling plan must be carefully explained.

#### 1006. Working Paper Format

1. The diversity of audit assignment prevents the establishment of a single system or design of working papers to be used. Therefore, a uniform working paper format may not be used but work papers for functional areas such as cash receipts should display conformity in various types of audits.
2. Workpapers may be in the form of paper, tapes, disks, diskettes, films, etc. There should be backup copies of electronically generated working papers. The backup copies should not be stored with the original copies.

#### 1007. Specific Standards for Each Workpaper

1. Descriptive Heading. Each working paper shall be fully identified by a heading at the top center containing:
  - A. Name of the University.
  - B. Name of the department of activity being audited.
  - C. Subject matter of information presented (specific activity audit procedure or other subdivision of the functional area to which the working paper pertains).
2. Auditor's Name and Date. Each working paper shall contain the initials of the staff member preparing it and the date of preparation. This information should be placed in the space provided in the upper right-hand corner of the standard working paper. These dates will correspond to the sign-off procedures used for the audit program.
3. Source of Data. Source of information appearing on the working paper should be shown in the upper left corner of the working paper. If information is supplied by operating personnel or results from your observation, show this in the working paper. (Use initials PBC-Prepared by Client). If you prepare information from records on file, identify these records.
4. Purpose and Scope of Audit Work Performed. The purpose of each audit working paper is to be specifically stated unless otherwise clearly evident from its title.
5. Auditors Verification Procedures. The nature of verification work performed by the staff member must be disclosed for each working paper. Mere copying of figures from the records is not, in itself, verification. The verification procedures performed must be

described in such a manner so as to clearly show what verification procedures were accomplished. Colored tick marks serve this purpose well when adequately explained under the "legend".

6. Auditor's Conclusions. Working papers must contain a conclusion with respect to each objective of the audit whether or not adverse conditions are disclosed. The formulation of conclusions is one of the most important functions of the auditor. The conclusions are the basis for the recommendations. They must never be a product of a predisposed mind. All evaluations should be made with an attitude of professional skepticism. They must spring from information contained in the auditor's working papers. Conclusions are trustworthy only if they are reasonable deductions from relevant information developed during the audit. They are strong only to the extent to which they are buttressed by supporting data.
7. Evidence of Review. Working papers must contain evidence of review by supervisory personnel. The reviewer's satisfaction with work performed and agreement with conclusions reached should be documented. The evidence of review can be documented by (1) initialing and dating each workpaper or (2) initialing and dating the audit binder that contains the workpapers. A combination of methods 1 & 2 are also permissible. In addition, each reviewer shall prepare Audit Workpaper Review notes which will document any questions raised by the reviewer. Ordinarily, the reviewer should not make any changes in the working papers. The review notes should be discussed between the reviewer and the auditor to answer the questions raised by the reviewer. Any corrections made as a result of this review should be noted on the workpaper. The review notes can and should be a valuable tool in supervising and training our auditors.
8. Other Standards.
  - A. Working papers should be prepared on the front side only.
  - B. To avoid confusion and complications in filing, only one subject should be dealt with on a working paper.
  - C. Index numbers are to be indicated on the lower center of the page. The index number should be placed on the outside of folded workpapers. The papers should be indexed according to the Audit Workpaper Checklist (Exhibit 10-1). When numbering a given area consecutive numbers are to be used (i.e. 2-1, 2-2, 3-1, 3-2, etc.).
  - D. Indexing audit fieldwork workpapers should contain the objective letter between the index number (20) and the workpaper number (i.e. 20-F-1, 20-F-2, 20-G-1, 20-G-2, etc.)
  - E. Working papers should leave no unanswered questions, open points, incomplete notes or other evidence of unfinished work.

- F. Working papers should be legible and neat. Sloppy workpapers may lose their worth as documented evidence.
- G. Where necessary, workpapers should be cross-referenced to the appropriate source.
- H. For electronic files, the file naming standards listed in Exhibit 8-8 should be utilized.

#### 1008. Review of Audit Workpapers

1. An important standard applicable to all of our work is that the evidence of work performed is to be reviewed on all assignments. The review process is important and must not be carried out in a superficial or perfunctory manner.
2. The following instructions apply to all of our audit work, including accounting system evaluations, surveys, and special studies.
  - A. Purpose of review of audit workpapers. Audit working papers will be reviewed to assure due regard has been given to such factors as:
    - (1) Adequacy of audit coverage, including compliance with the audit program and any other specific instructions given.
    - (2) Accuracy, reliability, relevancy and adequacy of the work performed and the acceptability of the related working papers as evidence of such work.
    - (3) Validity, reasonableness, and adequacy of working paper support for the findings, conclusions, and recommendations made.
    - (4) Development into findings of weakness in procedures or other deficiencies disclosed in the working papers, or inclusion in the working papers of the reasons why findings were not developed.
    - (5) Conformity with standards and requirements as set forth in this chapter.
    - (6) Due professional care was exercised by the Auditors assigned to the audit.
  - B. Responsibility for review prior to issuance of audit report. All working papers will be reviewed for compliance with our prescribed standards for audit working papers.

#### 1009. Arranging and Filing

1. Working papers for each audit will be retained in two standard files.

- A. Permanent File, where warranted.
  - B. Current File.
2. Permanent File. This file provides information which may be used to advantage in conducting subsequent examinations relating to the same department or activity. It also supplies new staff members, supervisory personnel and others with a summary of the auditee's current policies and procedures and organization structure. It should be maintained on a current basis by updating the file as additional information is obtained as a result of the audit. This file is predominantly used for the annual reviews performed by our office.
  3. Current File. This file consists of working papers containing information primarily related to the purposes of the current audit.
  4. The organization of the files should be tailored to each specific assignment. The primary test is convenience in use and ease with which material can be located and reviewed. Generally, audit workpapers should be filed as follows:
    - A. Planning Folder
    - B. Preliminary Survey Workpapers
    - C. System Understanding Workpapers
    - D. Audit Fieldwork Papers
  5. Audits involving several organizational elements and functional areas may require that the current file be divided into subsections for each of the principal segments of the audit. Generally, in more complex audits, individual segment section files will be set up for the following:
    - A. Each organizational unit to be audited.
    - B. Each major functional area within such units to be reviewed during the audit.

#### 1010. Standardized Workpapers

The following standardized workpapers should be used during audit assignments.

1. Audit Workpaper Checklist - The Audit Workpaper Checklist is to be completed by the auditor in-charge and approved by the Director. The checklist is used to ensure that the standard segments of each audit have been performed. (See Exhibit 10-1).
2. Matters For Attention of Director - The Matters for Attention of Director is to be completed by the auditor-in-charge of each engagement. Administratively, the form is used to record,

the auditors assigned to the review, client personnel participating in the review, and any major concern noted during the review. (See Exhibit 10-2).

3. Audit Findings - During each phase of the audit (i.e. preliminary survey, systems understanding, and fieldwork), potential findings should be documented on finding sheets (see standard form at Exhibit 10-3). The auditor-in-charge should submit the finding sheets (page 1 only) to the department head, discuss the findings with the department head (via meeting, phone call, e-mail, etc.), and document discussions on the finding sheets (page 2). At the conclusion of each phase, findings will be reviewed by the Audit Director. (See also Chapter 12: "Nature and Presentation of Audit Findings and Recommendations".)

#### 1011. Retirement of Audit Workpapers

1. Permanent File. Review this file and update it before the completion of each audit. To keep the active file from becoming too bulky, noncurrent material worth retaining should be removed, identified, reasons for removal noted and transferred to an "Inactive" permanent file. Noncurrent material not worth retaining should be removed and referred to the Director.
2. Current Working Papers Files. Upon completion of an audit, working papers for the prior audit should be discarded. **However, prior working papers relating to an objective not performed in the current audit should be carried forward to the current working papers file.** Also, care should be taken to ensure that all relevant material in the preliminary survey has been carried forward to the current working papers.

#### 1012. Special Project Workpapers

1. When Audit and Management Services is asked to perform a review which has not been scheduled as part of the audit plan approved by the Audit Committee, the review is called a Special Project.

Special Project requests can come from the Audit Committee, other Board of Visitors Members, the President, University Vice Presidents, and other University Managers. The Director of Audit and Management Services must approve all Special Projects.

Due to the inherent nature of a special project, the working papers that must be prepared to complete the project depend upon the objectives of the project. However, regardless of the nature of the project, working papers that document the planning of the engagement, the information or evidence obtained, the conclusions reached, the audit work paper review process, the audit report or memorandum, and subsequent follow-up review, if applicable, should be included in the file. The Audit Workpaper Checklist should be utilized to document the standard workpapers that were completed and those that were not applicable.

#### 1013. Backup and Recovery of Electronic Files

1. Each auditor should backup his or her electronic workpaper files to the network common drive (\auditor name\backup files) at least weekly. **However, fraud investigation workpapers (including those for fraud hotline cases) should not be saved on the common drive.**
2. At the end of each audit project, the auditor should backup all electronic workpaper files for the project to the two backup (external) hard drives. One of these drives should be stored in the office, while the other should be kept offsite until an auditor needs to add files to the drive.
3. If Audit and Management Services physical office space becomes unavailable due to a disaster (or other contingency):
  - A. The Audit Director will work to obtain resources (an alternate work location, computers, printers, supplies, etc.) that would allow the office to resume operations. The timeframe for resumption of activities would depend on the nature of the situation and space availability on campus.
  - B. The Director will contact office staff once an alternate location and other resources are available.
  - C. Once at the alternate location, auditors will access workpapers from the network common drive and/or the backup drives in order to resume audit projects.
  - D. The Audit Director will evaluate the availability of hard copy workpapers created prior to the contingency and will determine which workpapers will need to be re-created (i.e., by accessing and printing information from the common drive and backup drives).