



# Guidance for Planning the Internal Audit Engagement

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# Abbreviations

<b>COBIT</b>	Control Objectives for Information and Related Technology
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>EPM</b>	Engagement Planning Memorandum
<b>GIAS</b>	Global Internal Audit Standards of the Institute of Internal Auditors
<b>HIA</b>	Head of Internal Audit
<b>IACOP</b>	Internal Audit Community of Practice
<b>IIA</b>	Institute of Internal Auditors
<b>KPI</b>	Key Performance Indicator
<b>PEMPAL</b>	Public Expenditure Management Peer Assisted Learning network

# Preface and Acknowledgements

*Guidance for Planning the Internal Audit Engagement* is a knowledge product for public sector internal auditors, to assist them with planning and conducting internal audit engagements. It was developed by the *Audit in Practice Working Group of the Public Expenditure Management Peer Assisted Learning (PEMPAL) Internal Audit Community of Practice (IACOP)*.

The IACOP would like to thank all those who contributed including all members of the IACOP Audit in Practice Working Group, and recognize, in particular, the following key authors: Mioara Diaconescu, member of IACOP Executive Committee and former Lead of the Audit in Practice Working Group, Director of the Central Harmonization Unit for Public Internal Audit, Romania; Dragoș-Cătălin Niculae, Head of the Quality Assessment Unit, Central Harmonization Unit for Public Internal Audit, Ministry of Public Finance, Romania; Ljerka Crnković, former IACOP Executive Committee Chair, Senior Adviser, Ministry of Finance, Croatia; Arman Vatyán, World Bank, PEMPAL Program Leader; Abbas Hasan Kizilbash, Richard Maggs, and Jean-Pierre Garitte, World Bank experts; Diana Grosu-Axenti and Ruslana Rudnitska, IACOP resource team members.

Other IACOP good practice knowledge products include: Good Practice Internal Audit Manual Template; Good Practice Continuing Professional Development Manual Template; Internal Audit Body of Knowledge; Risk Assessment in Audit Planning; Quality Assessment Guide; PEMPAL Guidance on Internal Audit: Demonstrating and Measuring Added Value; PEMPAL Glossary of Terms: Internal Control; The Impact of COVID-19 on the Role and Activities of Internal Audit; and Key Performance Indicators For Internal Audit Functions, Assessing the Effectiveness of Internal Control: PEMPAL Guidance for Public Sector Internal Auditors. All are available at [www.pempal.org](http://www.pempal.org).

# What are PEMPAL and IACOP?

PEMPAL is a network to facilitate exchange of professional experience and knowledge transfer among public financial management practitioners in countries across the Europe and Central Asia Region. The network, launched in 2006, aims to contribute to strengthening public financial management practices in member countries through developing and disseminating information on good practices and their application.

PEMPAL organizes itself around three thematic communities of practice:

- Budget Community of Practice,
- Treasury Community of Practice, and
- Internal Audit Community of Practice (IACOP).

The main objective of the IACOP is to support its member countries in establishing modern and effective internal audit systems that meet international standards and good practices; important for good governance and accountability in the public sector.



# 1. Executive Summary

This Guidance serves as a comprehensive tool for public sector internal auditors to support effective audit engagement planning. The Guidance outlines key phases of internal audit engagements: start and planning, fieldwork, reporting, and follow-up of recommendations. This document emphasizes the importance of *Principle 13 Plan Engagements Effectively* of the Institute of Internal Auditors' (IIA) Global Internal Audit Standards (GIAS), which focuses on communicating effectively on the engagement, understanding the initial expectations from the engagement and the reason the engagement was included in the internal audit plan, gathering necessary information that enables understanding of the organization and the activity under review, conducting risk assessment, establishing clear objectives and scope for the engagement, identifying criteria and resources needed to perform the engagement, and developing an engagement work program.

The Guidance provides detailed advice to develop engagement communication, risk assessment, resource allocation, and work program. It includes practical examples and templates such as engagement planning memoranda, roadmaps, and risk matrices to help internal auditors design effective audit engagements. It also highlights the importance of continuous communication with stakeholders, managing resources effectively, and documenting all processes to support accountability and adherence to the GIAS.





# 2.

## Introduction

An internal audit engagement has four main phases: (i) start and planning, (ii) fieldwork, (iii) reporting, and (iv) follow-up of recommendations. Engagement planning is part of the first phase.

### **PHASE 1 – Start and Planning**

- Assignment letter
- Notification letter
- Opening meeting
- Engagement planning activities:
  - Identifying reference frameworks & information collection
  - Risk assessment
  - Setting up audit objectives and scope
  - Establishing evaluation criteria
  - Ensuring appropriate and adequate resources
  - Documenting the work program

### **PHASE 2 – Fieldwork**

- Objectives and Scope Memorandum
- Kick-off meeting

- Fieldwork
- Wrap-up meeting

### **PHASE 3 - Reporting**

- Draft audit report
- Contradictory procedure
- Final audit report

### **PHASE 4 – Follow-up**

- Regular follow-up of recommendations

Internal auditors may use various (reference) frameworks to conduct their work. These may be legislative frameworks consisting of applicable laws and regulations and/or global best practice frameworks. The use of these reference frameworks sets a baseline for internal auditors to execute their work, to document and test controls, or to determine the effectiveness and efficiency of programs. The more globally accepted the (reference) framework is, the easier it is for the auditor to convince their auditees of the need to address internal control design gaps or implement improvement opportunities. Examples of such reference frameworks include the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework and the Control Objectives for Information and Related Technology (COBIT) framework.

It is important for internal auditors to understand how the organization's annual or multi-year internal audit plan was developed and the reasons why the planned engagement was part of the internal audit plan. Further, internal auditors should understand the engagement planning process used by the organization's internal audit unit, which is often described in the internal audit policies and procedures manual.

This Guidance outlines the process of planning the internal audit engagement, including practical examples, based on the International Professional Practices Framework of the IIA. The new GIAS were issued by the IIA on January 09, 2024, and will be in force from January 09, 2025.<sup>1</sup> The GIAS

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<sup>1</sup> <https://www.theiia.org/en/content/communications/press-releases/2024/february/the-iaa-introduces-new-resources-to-facilitate-implementation-of-new-global-internal-audit-standards/>

set out 15 guiding principles that enable effective internal auditing. Each guiding principle is supported by standards that contain all mandatory requirements, considerations for implementation, and examples of evidence for conformance.

The focus of this Guidance is GIAS Principle 13: “Plan Engagements Effectively”. Principle 13 notes that, “When planning engagements, internal auditors gather the information that enables them to understand the organization and the activity under review and to assess the risks relevant to the activity.”

The following standards underpin the application of Principle 13:

Standard	Subject
13.1	Engagement Communication
13.2	Engagement Risk Assessment
13.3	Engagement Objectives and Scope
13.4	Evaluation Criteria
13.5	Engagement Resources
13.6	Engagement Work Program

# 3.

## Internal Audit Engagement Planning

Engagement planning is critical to the effective performance of internal audit engagements. It must address all phases of an audit engagement and consider the objectives of the process or program being audited, prioritize risks, determine the scope and timing of internal audit steps, and assess resources required for engagement execution. Effective engagement planning ensures that internal auditors (i) focus their work on the significant risks of the process or program under review, (ii) develop a tailored engagement work program, and (iii) communicate effectively with the auditee.

Effective engagement planning allows auditors to plan fieldwork and establish engagement timelines, budget, and resource requirements. It is important to emphasize, as noted by the IIA,<sup>2</sup> that a failure to clearly delineate engagement objectives impairs the ability of internal audit to (i) prioritize risks at the engagement level and align them to those of the organization; (ii) meet the expectations of the organization and/or stakeholders; (iii) protect and enhance organizational value by providing assurance, advice, and insight; and (iv) improve the organization's governance, risk management, and control processes.

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<sup>2</sup> <https://www.theiia.org/en/content/guidance/recommended/supplemental/practice-guides/engagement-planning-establishing-objectives-and-scope/>

The main elements in the planning process are the same whether the internal auditor is undertaking an assurance or advisory engagement. It is important to note, however, that in an assurance engagement the internal auditor will determine the nature and scope of the engagement. An advisory engagement is usually carried out at the request of the auditee and objectives are defined together with the auditee.

The key elements of engagement planning include:

- a. Understanding the context of the engagement
- b. Gathering information related to the area being reviewed
- c. Conducting a risk assessment
- d. Setting the engagement objective and scope
- e. Establishing evaluation criteria
- f. Determining the resources needed and deployment of resources
- g. Documenting the work program

Each of the elements above contributes to a successful planning phase if performed effectively. The quality and availability of information are critical to successful planning.

## Engagement Communication (GIAS 13.1)

GIAS 13.1 requires that internal auditors must **communicate effectively** throughout the engagement. The issuance of a formal assignment letter plays a critical role in this regard to ensure the objectives, scope, and timing of the engagement are clearly communicated to the auditee.

## Engagement Risk Assessment (GIAS 13.2)

GIAS 13.2 requires that internal auditors develop an understanding of the process or program under review to assess the relevant risks. Internal auditors

must carefully review the annual internal audit plan and understand the drivers for its development, including the reason for the current engagement being included in the internal audit plan.

Information related to the process or program under review should be obtained, including auditee objectives, risk to the achievement of these objectives, and the controls in place to mitigate these risks. In this regard, if available, internal auditors can utilize existing process maps that outline the main inputs and outputs of the process or program being audited. In addition, internal auditors can **gather information** by:

- Reviewing prior internal audit assessments of the process or program under review
- Interviewing key stakeholders
- Reviewing the organizational chart and job descriptions
- Reviewing logic models and controls in the area under review
- Reviewing risk appetite, key risk indicators, and risk tolerances
- Reviewing applicable laws and regulations
- Reviewing auditee's key performance indicators (KPIs) related to the process or program under review
- Examining information systems and databases that support the audited process
- Observing the operation of the process

This information can be collected through a **preliminary survey**, and this forms the basis for the whole planning process within the internal audit engagement. The information obtained during the preliminary survey will be further used for the rest of the elements of engagement planning. Potential findings may arise at this stage. Internal auditors should document any gaps identified (especially related to conformance with laws and regulations). Any opportunities for the auditee to make important improvements in activities or risk management and governance process should also be well documented.

As internal audit is a risk-based activity, internal auditors must **prioritize risks** based on assessment of significance. Internal auditors must identify and document the:

- Objectives of the program or process being audited

- Significance of risks to the achievement of these objectives by considering the impact and likelihood of each risk
- Controls in place to mitigate these risks

Risk assessment can be facilitated through the **risk and control matrix, developed by internal auditors** (see example at Appendix 1). The risks can also be plotted on a **heat map** to graphically highlight the combined significance of each risk (see example at Appendix 2). The heatmap can be used to illustrate the impact and likelihood assessments from the risk control matrix. This helps internal auditors to assess the adequacy of controls designed to address the most significant risks and, thus, to determine which controls to test for operational effectiveness. Further, these tools can be used throughout the engagement, clearly documenting identified key risks, controls, testing results, and residual risk.

## Engagement Objectives and Scope (GIAS 13.3)

GIAS 13.3 requires that internal auditors establish and document the objectives and scope for each engagement. Establishing clear **engagement objectives** helps ensure that internal audit efforts are focused on the key risks identified during the risk assessment and contribute to defining the audit scope, establishing the engagement work program and timelines, determining resource allocation, and communicating with the auditee.

A **planning roadmap** may be used (see example at Appendix 3) to ensure that all the requisite information required for the engagement planning memorandum has been obtained and avoid the risk of internal auditors inadvertently omitting any elements or information. Besides outlining the required activities sequentially, this document emphasizes the contribution of each element to the engagement.

An **engagement planning memorandum** based on the information collected sets out the terms of reference for the engagement objectives (see example at Appendix 4).

The **engagement scope** refers to the boundaries within which the engagement is conducted. These include areas to be covered, the timeframe, the units to be audited, etc. The engagement scope should be sufficient to achieve the engagement objectives, however, internal auditors should remain vigilant of the risk of scope creep and maintain focus on the audit objectives. An engagement may not cover all aspects, systems, and transactions so internal auditors must determine what will and will not be included (i.e. scope exclusion) in the audit scope. Therefore, the audit scope is determined following objective setting.

When defining the audit scope, internal auditors should review all the planning work done so far: preliminary survey and objective setting. This allows a thorough understanding of how best to **link audit scope to the objectives**. It is important for internal auditors to carefully consider the boundaries of the engagement, as the scope must cover enough breadth to achieve the engagement objectives. Further, internal auditors should be aware of the differences in scope between an assurance and an advisory engagement.

Internal auditors may consider and document any **scope limitations**, as well as any requests from the client or stakeholders for items to be included or excluded from the scope. If internal auditors encounter scope limitations, these must be reported in the final engagement communication. Internal auditors may place reliance on work performed by other assurance providers like second line functions and the external auditor. It is recommended to document such reliance in the audit scope.

The results can be documented in an **objective and scope memorandum** (see example at Appendix 5) that is communicated to the auditee for further preparation of the engagement.

## Evaluation Criteria (GIAS 13.4)

GIAS 13.4 requires that internal auditors identify the relevant **criteria to evaluate** the audited process based on the objectives and scope of the engagement. These criteria consider how the audited entity evaluates the effectiveness and efficiency of governance, risk management, and control measures of the audited process. A good practice is to get agreement on the criteria early in the engagement to avoid the risk that the relevance of the



criteria is challenged by the auditee at the reporting stage. Evaluation criteria can be documented in the audit methodology (see Appendix 4 and Appendix 5).

Internal auditors compare actual results of their audit work against the evaluation criteria to **determine if gaps exist** and which should translate into audit findings. Further, establishing evaluation criteria helps internal auditors to determine the significance of internal audit findings. GIAS 13.4 provides the following examples of adequate criteria for an audited process:

- Internal policies and procedures
- KPIs or targets
- Frameworks, standards, guidance, or benchmarks
- Established organizational practices
- Expectations based on the design of a control
- Procedures that may not be formally documented

## Engagement Resources (GIAS 13.5)

GIAS 13.5 requires that internal auditors must determine **appropriate and sufficient resources** to achieve the engagement objectives. This includes considering the complexity of the engagement, the time frame within which it must be completed, and whether financial, human, and technological resources are sufficient to meet engagement objectives. *Appropriate* refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. *Sufficient* refers to the number of resources needed to accomplish the engagement with due professional care. It is critical that internal auditors assigned to an engagement possess the necessary knowledge, skills, experience, and additional competencies to perform the engagement competently and thoroughly.

The HIA should carefully consider the number of **internal audit staff**, productive work hours available for the engagement, and the unit's collective knowledge, skills, and other competencies. The HIA may also want to reflect on the **approved budget** and consider the funds available for training, technology, or additional staffing or co-sourcing to perform the engagement.

When allocating resources, the HIA should consider how the available resources correspond with the **specific skills and timing** required to perform the engagement. This process should aim to fill any gaps that may have been identified.

Resource deployment is based on a review of work done under engagement planning (preliminary survey, objective setting, and defining the audit scope). It is important that consideration of resources is not limited to available staff but also **technology** that may be helpful or necessary to perform a quality audit engagement. Consideration may also be given to whether additional outside resources or technology are necessary to complete the engagement.

In determining resource needs, the HIA must determine both the number and the level of **experience** required of team members. Not all team members need to have the same level of experience, skills, and competence, but the team as a whole must be capable of meeting the objectives of the audit.

If the internal audit activity lacks appropriate or sufficient staff, the HIA is expected to **obtain competent advice or assistance to fill gaps**. Training can improve knowledge, skills, and competencies, or an expert may be asked to serve as a guest auditor. A guest auditor is a specialist working in an environment with similar processes as the ones that are part of the audit engagement. The guest auditor will be attached to the internal audit unit for the duration of the engagement. Independence and objectivity must be carefully managed. If the unit is unable to cover the engagement with its own resources efficiently and effectively, the HIA may hire additional staff, co-source or outsource engagements, or use one or more guest auditors.

A **team leader** should be nominated for the audit. The team leader should have the necessary authority, management ability, skills, and legitimacy regarding the performance of the audit engagement (certification, knowledge of the audited domain, etc.).

The **deployment of resources should be documented** in the engagement work program, which contains the estimated schedule of audit engagements and resources allocated. This allows auditors to track the actual time spent performing the engagement against the budgeted time. The causes and effects of a significant overrun may be documented as a lesson learned for future planning purposes.

## Engagement Work Program (GIAS 13.6)

GIAS 13.6 requires that internal auditors develop an **engagement work program** (see example at Appendix 6) to achieve engagement objectives. The work program is based on the engagement objectives and scope. It typically includes (i) the criteria used to evaluate each engagement objective, (ii) the tasks required to achieve engagement objectives, (iii) resource deployment plans, and (iv) the techniques or methodologies that will be used to conduct the engagement (e.g., physical, documentary, testimonial, sampling techniques).

The work program **plots in detail the tasks, activities, and resources** for the audit team. It provides detailed information about the fieldwork phase of the engagement and complements the engagement planning memorandum, listing all activities within the audit engagement, the staff responsible, and the time budget (allocated and executed) for each. It is usually an internal audit team resource but may be discussed with the auditee for planning and logistical purposes. The work program must be approved by the HIA before the commencement of the audit fieldwork. It may be adjusted with new information and knowledge gained during fieldwork, subject to prompt approval by the HIA.

Each engagement step in the work program should be designed to **test a particular control** that addresses a targeted risk. In this regard, internal auditors must consider the nature, extent, and timing of the audit tests required to achieve the engagement objectives. For documenting this process, a risk and control matrix can be drafted (see Appendix 1).

The audit work program represents the **final part of engagement planning** (see Appendix 6). It provides a link between the planning phase and the fieldwork phase of the engagement. The format of the work program may vary by engagement or organization. Commonly used formats include standard templates or checklists to document completion of planning steps, memoranda that summarize tasks to be completed, and additional information in the risk and control matrix. Well documented work programs assist in communicating roles, responsibilities, and tasks to members of the engagement team.

# 4.

## Additional Guidance

In addition to the planning set out above related to the IIA Standards, a successful audit engagement requires planning of other elements included in the four phases. Additional guidance related to the engagement planning process is set out below:

### Phase 1: Assignment letter

An assignment letter (see Appendix 7) must be issued for all internal audit engagements. This letter provides the **formal authority to conduct the audit** and should:

- State the objective and scope of the audit in terms of its title
- Indicate the location where the audit is to be carried out
- Provide the names and structure of the audit team and a nominated team leader for the audit
- Provide the timeframe of the audit engagement

## Phase 1: Notification letter

Prior to the opening meeting the auditors will contact the auditees (usually the head of the organizational unit considered as the “owner” of the audited process or program) to inform them very briefly about the purpose of the meeting. There should be a **formal invitation to the meeting** to avoid confusion about the purpose and timing.

## Phase 1: Opening Meeting

The purpose of the opening meeting is to **start the audit** and to briefly present the details of the engagement, such as: the audit plan where the engagement is included, the audit team members and their roles, the time framework for the engagement, etc.

A successful opening meeting requires preparation and planning. The key preparation is to **identify the issues to be discussed** and formalized in the opening statement issued following the opening meeting. Auditors are advised to prepare an agenda and/or speaking note that represents a full draft of the opening statement. As the issues are the same as those to be included in the opening statement these are considered further below.

The audit team must determine a **chair of the meeting**, who will start and run the meeting, and a second person, who will discuss technical details. It is important that these two roles are performed by two different people. Normally, the audit team leader will lead the meeting and one of the audit team members will assume the role of the second person. The head of internal audit (HIA) takes the chair role, if present at the opening meeting, and the audit team leader assumes the second person role.

During the opening meeting certain **administrative issues should be discussed**. This will include the provision of office space for the audit team during the fieldwork (with internet access and required office equipment provided). This is very important; the internal auditors need privacy for effective interviews and to be able to discuss different issues during the fieldwork. A point of contact within the auditee’s environment should be

established to whom any issues that may arise during the audit engagement can be directed.

A list of **preliminary documents** may be requested at the opening meeting in order to facilitate the start of the preliminary survey within the engagement planning phase.

The auditors **outline the next steps** within the audit engagement and provisionally set up the kick-off meeting, where they will present the audit objective(s), the audit scope, criteria and the actual timing for the fieldwork.

In general, the chair of the meeting could plan the **agenda** as follows:

- Thank auditees for their presence and time
- Outline the purpose of the meeting
- Present the title of the audit
- Introduce the audit team and present their credentials
- Ask for a contact person and office space for the audit team.

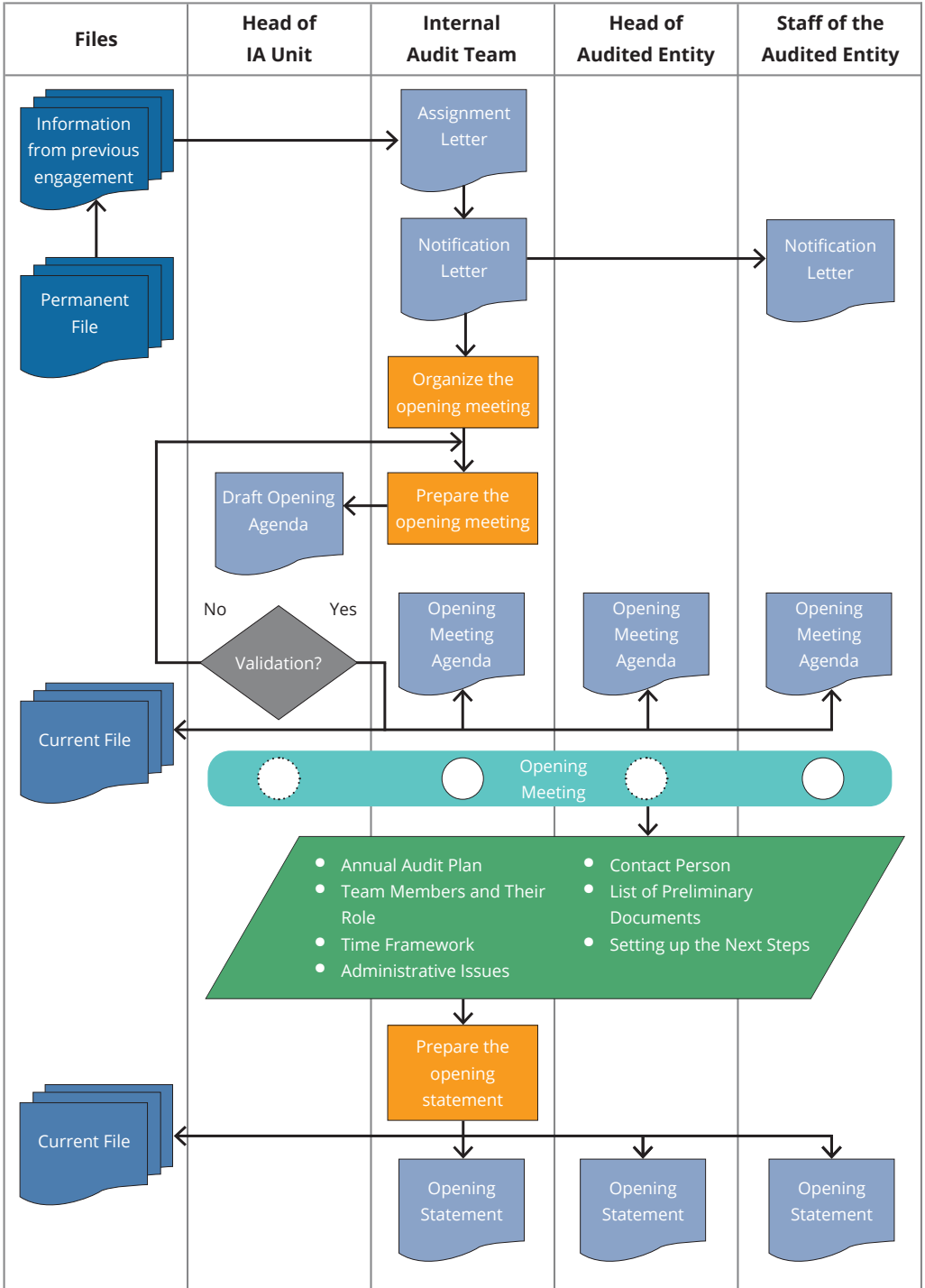
The second person could then give an overview of how the audit will be carried out. A more detailed technical presentation will be given at the kick-off meeting.

The **sequencing** for the preparation of the opening statement and performance of the opening meeting are presented in **Figure 1**.

## Phase 2: Kick-off Meeting

The purpose of the kick-off meeting is to **start the audit fieldwork**. The audit team explains how it intends to perform the audit and agrees with the auditees on the key interviewees and scheduling of the audit. The scheduling should always be performed with the audit team leader, as the team leader is responsible for completing the audit within the given deadline. The scheduling process identifies the key individuals for the audited areas, the auditor proposes the timing, and this is agreed with the auditee.

**Figure 1. Sequencing for the preparation of the opening statement and performance of the opening meeting**



It is important that the kick-off meeting explains the **boundaries** of the work to be undertaken during the audit. This is to avoid disagreements at the end of the audit as to what was included or excluded.

During the kick-off meeting, the **Objective and Scope Memorandum** is communicated to the auditees and information in the work program is discussed.

The **kick-off statement** must include the following:

- Audit objectives and scope
- Main risks identified
- Main activities of the audit and audit methods to be used
- Target dates for the draft and final report



# Appendix 1.

## Example of a Risk and Control Matrix & Audit Program

<b>Engagement Objective(s)</b>	<i>[List the engagement objectives as they were defined in engagement planning memorandum (EPM)]</i>
<b>Engagement Scope</b>	<i>[Present the engagement scope as it was defined in EPM]</i>
<b>Engagement reference framework</b>	<i>[List the legal and procedural framework as it was defined in EPM]</i>
<b>Required skills and competences</b>	<i>[List skills and competence needed]</i>

<b>Process / activity description</b>		<b>1</b>	<i>Description of process and list of process objectives</i>
<b>ASSESSMENT OF INHERENT RISK</b>	<b>Main Risks</b>	<b>2</b>	<i>Describe the event(s) that may result in risks to the achievement of the process objectives. List each risk separately</i>
	<b>Impact</b>	<b>3</b>	<i>Identify the impact of the risk/ event as high, medium, or low</i>

<b>ASSESSMENT OF INHERENT RISK</b>	<b>Likelihood</b>	<b>4</b>	<i>Identify the likelihood of the risk/ event arising as high, medium, or low</i>
	<b>Overall assessment</b>	<b>5</b>	<i>High, medium, or low</i>
	<b>Risk Response</b>	<b>6</b>	<i>From the assessments in rows 3-5 determine whether the risk should be accepted, controlled, avoided, or transferred</i>
<b>TESTS OF DESIGN</b>	<b>Mitigating controls description</b>	<b>7</b>	<i>Where the risk should be controlled, list the controls that have been put in place by management to address the risk. Where there are a number of controls that address a particular risk identify the most important or "key controls".</i>
	<b>Results of tests of design</b>	<b>8</b>	<i>Assess whether in theory the controls have the potential to reduce the inherent risk identified in row 2. This may be done by walking a small number of transactions through the control process to determine how it is intended to work. Note: There is no point in auditors testing controls that are too weak to address the inherent risks involved. Management should be urged to improve the effectiveness of the controls in place.</i>
<b>Process / activity Reference</b>		<b>9</b>	<i>Cross reference to process.</i>

<b>TESTS OF IMPLEMENTATION</b>	<b>Controls to be tested</b>	<b>10</b>	<i>List each control that is to be tested for a particular process</i>
	<b>Testing procedures</b>	<b>11</b>	<i>Identify the audit procedures that are to be used to confirm whether the control in column 10 is working as intended.</i>
<b>CONCLUSION</b>		<b>12</b>	<i>State conclusion of the tests of implementation.</i>

**Notes:**

1. The risk and control matrix is contained in rows 1-8 and controls to be tested are listed in rows 9-12
2. Text in italics illustrates the content of each row.
3. The program above has been split into two parts for ease of use. Auditors may however find it useful to separate tests of design (rows 7 and 8) from the assessment of inherent risk.

# Appendix 2.

## Example of a Heat Map

The impact and likelihood assessments from the risk control matrix are frequently combined by auditors in a chart (heat map) to visually represent the significance of the risk assessment, as shown in the example below.

		IMPACT		
		Low	Medium	High
LIKELIHOOD	Low	Risks 8,9		
	Medium	Risks 4,6	Risks 2, 3	Risk 11
	High	Risk 10		Risk 1,5,7

### Illustrative Interpretation

Red shaded cells represent those risks with high impact and high likelihood (or high impact and medium likelihood). Any inherent risks falling within these cells would lead to an overall risk assessment of High. Risks with medium impact and medium likelihood (such as risks 2 and 3) have been assessed to have an overall assessment of medium.

The creation of a heat map can greatly aid in focusing internal audit efforts on the areas of greatest risk and on the key controls in place to mitigate those risks.

# Appendix 3.

## Example of a Planning Roadmap

Engagement Planning		Action performed?			Information to be used for EPM Chapter N°	WP Ref
		Y	N	NA		
PRELIMINARY SURVEY	1. Identify why the engagement was included in the annual plan				1	
	2. Identify changes that occurred after the risk analysis performed for annual planning				4.2	
	3. Identify the expectations of the main stakeholders				5.1	
	4. Identify prior audits				4.1	
	5. Identify strategies - objectives - risks of the audited area				2.1, 2.2, 3	
	5.1. Understand the: mission, vision, objectives of the entity, risk, risk appetite, control environment, governance structure, risk management process; legal and procedural framework				2.1, 2.2, 3	
	5.1.1. Identify and understand mission, strategic objectives, KPIs, legal and procedural base				2.1, 2.2, 3	

Engagement Planning		Action performed?			Information to be used for EPM Chapter N°	WP Ref
		Y	N	NA		
PRELIMINARY SURVEY	5.1.1.1. Review the organizational structure, management roles, management reports, operating procedures and legal base, KPIs				2.1, 2.2, 3	
	5.1.1.2. Perform interviews with the management of the audited area to understand the strategies and objectives				2.1	
	5.1.1.3. Review the strategy papers, planning documentation, budgets, minutes of meetings				2.1	
	5.1.2. Identify and understand risks and controls of the area to be audited				2.2, 4.3	
PRELIMINARY SURVEY	5.1.2.1. From the documents under point 5.1.1. identify and independently assess the risks				2.2, 4.3	
	5.1.2.2. Identify if new risks were introduced by the new processes or new conditions				2.2, 4.3	
	5.1.3. Assess if the risks are managed to a tolerable level				2.2, 4.3	
	5.1.3.1. Review the risk management process				2.2, 4.3	

Engagement Planning		Action performed?			Information to be used for EPM Chapter N°	WP Ref
		Y	N	NA		
PRELIMINARY SURVEY	5.2. Develop a risk and control matrix or review the existing one				2.2, 4.4	
	5.3. Gather information on policies and procedures applicable of the audited area				2.2	
	5.4. Understand the IT systems used				2.2	
	5.5. Identify the source, types, and reliability of information used in the audited process				2.2	
	5.6. Obtain and review the results of prior audits				4.1	
	6. Identify the adding value opportunities				5.2	
	6.1. Use professional judgment, knowledge, and experience to identify opportunities for making significant improvements to the organization's governance, risk management, and control processes				5.2	
OBJECTIVES SETTING	7. Establish the engagement objectives				5.1	
	7.1. Use the results of the "Preliminary Survey" and annual internal audit plan to attain a complete understanding of why the engagement is being conducted and what the organizations want to achieve				5.1	
	7.2. Understand the short-term and long-term goals of the auditee, as well as the inputs and outputs and applicable procedures				5.1	
	7.3. Identify and understand the expectations of the senior management, the board, and stakeholders				5.1	

Engagement Planning		Action performed?			Information to be used for EPM Chapter N°	WP Ref
		Y	N	NA		
OBJECTIVES SETTING	7.4. Formulate the preliminary objectives of the engagement				5.1	
	7.5. Identify if the risk assessment was performed during the preliminary survey phase and use the results. If not, perform risk analysis				5.1	
	7.6. Further enhance the preliminary objectives considering the risk analysis results. The objectives should reflect what the management is specifically attempting to accomplish				5.1	
DEFINING AUDIT SCOPE	8. Set up the engagement scope				5.3, 5.4	
	8.1. Consider factors that may influence the scope, such as: boundaries of the area, in-scope versus out-of-scope locations, subprocesses, components of the process, timeframe, etc.				5.3	
	8.2. Review once more the planning considerations and establish the engagement objectives to attain an understanding of the key risks identified during planning phase				5.3	
	8.3. Describe what will be and what will not be included in the engagement scope				5.3	
	8.4. Review the established objectives to be sure that all the engagement objectives can be accomplished under the defined scope.				5.3	
	8.5. Disclose any scope limitation and any request from the auditee or senior management related to items to be included or excluded from engagement scope				5.4	
	8.6. Disclose the reliance on others work, as appropriate				5.3	



Engagement Planning		Action performed?			Information to be used for EPM Chapter N°	WP Ref
		Y	N	NA		
RESOURCE DEPLOYMENT	9. Resource Allocation				7.2, 7.4	
	9.1. Review the engagement objectives and engagement scope for resource allocation purposes				7.4	
	9.2. From previous discussions with stakeholders, identify the nature and complexity of the engagement				7.4	
	9.3. Perform an inventory of the necessary resources: staff, technology, and other				7.4	
	9.4. Assign the staff to the engagements based on their availability, knowledge, skills, and experience				7.2, 7.4	
	9.5. Discuss with the staff any concerns related to the resources allocated to the engagement				7.4	
	9.6. Decide if external resources are necessary to fill in gaps				7.4	
	9.6.1. Consider whether additional training is an option				7.4	
	9.6.2. Consider if closer supervision would be appropriate				7.4	
	9.6.3. Consider supplementing existing resources with other options, such as using guest auditors, employing a subject matter expert, or co-sourcing				7.4	
ISSUING THE AUDIT PROGRAMME	10. Design the engagement work program				7.2	
	10.1. Review the engagement objectives and engagement scope				7.2	
	10.2. Design the risk and control matrix				7.2	
	10.3. Consider aspects of the engagement:				7.2	

Engagement Planning		Action performed?			Information to be used for EPM Chapter N°	WP Ref
		Y	N	NA		
ISSUING THE AUDIT PROGRAMME	10.3.1. Appropriate sample size for testing and methodologies used				7.2	
	10.3.2. The scope of the engagement				7.2	
	10.3.3. How the engagement objectives will be achieved				7.2	
	10.3.4. If necessary resources are available				7.2	
	10.3.5. Nature, extent, and timing of the audit tests				7.2	
	10.4. The engagement work program should communicate roles, responsibilities, and tasks to the members of the engagement team				7.2	

# Appendix 4.

## Example of an Engagement Planning Memorandum

### 1. Purpose and justification of the engagement

The engagement is included in the [entity name] [year] audit plan. This follows the audit risk assessment carried out in [year] as part of the preparation of the [entity name] strategic audit plan for [period of the strategic audit plan].

*Describe the inherent risks related to the audited process or program and of the purpose of the engagement, i.e. why it was retained for audit. Usually this is the importance of the process for the objectives of the entity combined with the relatively high risk. Also mention if the timing of the assignment is linked to a specific event (new program, new regulation, etc.). See "Appendix 2: Planning Roadmap" for the source of information.*

## 2. Description of the activity of the entity and of the audited process

### 2.1. Entity and main objectives

*Introduce the objectives related to the audited process, the link with the general and specific objectives included in the strategic and annual plans of the entity as well as the relevant key performance indicators and targets.*

### 2.2. The audited process or program

*Describe the audited process or program and the key governance, risk management, and internal control measures directly related to the audited process. Mention those “key controls” which address the main inherent risks described under point 4 and which will be later tested.*

## 3. Legal base and other key information

*As a minimum, the reference documents should include the documents establishing the applicable legal framework of the audited entity and process. The nature of the figures depends on the audited process. For instance, for public procurement, it can be the number and value of procurement actions per type of procedure.*

## 4. Main risks related to the audited processes

### 4.1. Previous audits related to the audited processes

*Refer in this paragraph to relevant audit reports. The conclusions of other auditors can often be used to formulate risks.*

### 4.2. Changes since last auditor's risk exercise

*Identify the changes produced since the last auditor's risk exercise and check if the risks were considered in the risk management of the entity. If not, identify the inherent risks.*

### 4.3. Risk management assessment

*Identify and assess the risk management process and its results. If process generates reliable results, leverage them for completing the Risk and Control Matrix.*

### 4.4. Conclusion

*Describe the:*

- key inherent risks and the likely risk response. For risks that are to be controlled assess the likely residual risks of the audited process and activities, taking into account the key internal controls described under 2.2.*
- risks identified as a result of prior audits*
- risks generated by new activities or processes implemented after the last risk assessment performed for annual planning*
- risks identified as significant as a result of risk management review*

*All these risks should be mirrored in the risk and control matrix.*

## 5. Objective(s) and scope of the audit engagement

### 5.1 Objective(s)

*List here the objective(s) and the reasoning for their choice. The objective(s) should be linked with the board,<sup>3</sup> senior management, and stakeholders' expectations and goals.*

### 5.2. Potential findings and recommendations

*Based on work performed, describe the main expected (potential) findings and recommendations.*

### 5.3. Scope

*Describe the areas, processes, activities, etc. that will be covered by the audit engagement. Also mention all processes, activities, etc. that will not be covered by the audit engagement. The period of time the audit will focus on should be included.*

### 5.4. Scope limitations

*Mention if internal or external scope limitations were identified. If yes, describe the nature of the scope limitation and its impact on the engagement results. The explanations provided in section 5.3 on what is not included in the audit scope do not represent scope limitations.*

<sup>3</sup> Board = The highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

## 6. Units and services to be audited

*List here the directorates, units, or services that will be subject of audit engagement.*

## 7. Audit methodology

### 7.1. Audit methodology

*Set out the internal audit rules and procedures to be followed. This may include national or international standards, laws and regulations, guidelines, and system or operational procedures. Examples include the COSO Internal Control and Enterprise Risk Management Frameworks, COBIT, the PRINCE2 Project Management Methodology, national legislation etc.*

*Additionally, a description of the internal audit instruments and techniques should be mentioned (e.g. desk reviews, interviews, walk-through and compliance tests, sampling methods and instruments). For the sampling, present in detail the aim of the test, the population, how the sample will be obtained, and other significant aspects.*

*Mention that the actual findings will be validated during a meeting at the end of the on-the-spot fieldwork.*

### 7.2. Audit program

*Issue the risk and control matrix and make reference to it in this paragraph. The last columns in that document meet the criteria to use the document as an audit program.*

### 7.3. Target planning

*Fill out Table 1. Check the consistency of timing with the dates in the annual plan.*

**Table 1. Target planning**

Audit Phase	% of Time Budget <sup>4</sup>	Milestones	Timing
Start & Planning	20%	Engagement start	
		End of planning	
Fieldwork	60%	Objective(s) and Scope Memo issued	
		End of fieldwork	
Reporting	20%	Draft Report issued	
		End of contradictory procedure	
		Final report issued	

## 7.4. Resources

*Present the total days within the engagement budget. Ensure that the number of days correspond with the number of days approved in the annual or updated approved audit plan. Any difference should be mentioned and explained explicitly. Any budget increase will be subject to senior management approval before finalization of the engagement planning memorandum.*

*Present the overall coordination of the audit engagement: HIA, team leader, audit team members, using the Table 2.*

*Include auditors' qualifications and previous experience relevant to the engagement (e.g. knowledge of the area through experience gained in an operational function, previous participation in audits in the same area, knowledge of the audited unit gained from previous audits, knowledge of the audited topic gained from previous audits, etc.). Conclude if the staff assigned to the engagement have the appropriate skills to undertake the required work. Care must be taken to ensure that internal auditors have no actual/potential conflict of interests with the engagement.*

<sup>4</sup> Subject to individual professional judgment



**Table 2. Overall coordination of the audit engagement**

Role	Name	Position
HIA		
Team Leader		
Team Members		

*The budget allocation for each member of the team is presented in the engagement work program. Please check that the total budget from this document is the same as the time budget from the annual plan. The time allocation of the time budget should respect the percentages provided at 7.3 Target Planning (above).*

## 8. Potential difficulties (if applicable)

*[name]                      [position]                      [signature]*

*[name]                      [position]                      [signature]*

*[name]                      [position]                      [signature]*

*[name]                      [position]                      [signature]*

# Appendix 5.

## Example of an Objectives and Scope Memorandum

### 1. Introduction

The engagement is included in the *[entity name] [year]* audit plan. This follows the audit risk assessment carried out in *[year]* as part of the preparation of the *[entity name]* strategic audit plan for *[period of the strategic audit plan]*.

*Introduce a description of the inherent risks related to the audited process and of the purpose of the engagement, i.e. why it was retained for audit. Insert a description of possible issues of interest for the auditee.*

### 2. Objective and scope of the audit

*Include here:*

- a description of the main objective of the audit
- the scope of the audit (units to be audited, processes/types of transactions covered, period covered etc.)
- a description of activities/parts of the process which are out of scope
- cooperation with external parties, if relevant

### 3. Audit approach

*Include here:*

- a description of the audit criteria
- a description of the audit methodology (documentary analysis, transaction testing, sampling, on-spot inspection, etc.)
- a description of the framework that will be followed during the audit. The framework could refer to the regulatory framework and to internationally recognized best practices (COBIT, ISO norms, etc.)

### 4. Timing

*Fill out Table 3 below. Check the consistency of timing with the dates in the annual plan and engagement planning memorandum.*

**Table 3. Target planning**

Audit Phase	Milestones	Timing
Start & Planning	Engagement start	
	End of planning	
Fieldwork	Objective(s) and Scope Memo issued	
	End of fieldwork	
Reporting	Draft Report issued	
	End of contradictory procedure	
	Final report issued	

## 5. Audit team

*Present the overall coordination of the audit engagement: HIA, team leader, audit team members, using Table 4 below.*

**Table 4. Overall coordination of the audit engagement**

Role	Name	Position
HIA		
Team Leader		
Team Members		

# Appendix 6.

## Example of an Engagement Work Program

<b>Audit Unit</b>	Engagement work program for <i>[name of engagement]</i>
<b>Prepared by</b>	_____
<b>Reviewed by</b>	_____
<b>Period of review</b>	_____
<b>Key Personnel of Entity</b>	_____
<b>Audit Objectives &amp; Scope</b>	_____
<b>Key Risks</b>	_____
<b>Evaluation Criteria</b>	_____

**Testing Strategy**

To determine the extent of the test procedures to perform the auditor will assess the risk of control failure by considering the following factors:

- Complexity of the control
- Significance with the judgments made during operation
- Whether there have been significant changes in volume or nature of transactions
- Whether there have been key changes in personnel who performed the control
- Knowledge of past control deficiencies

Test procedures can include a combination of (i) Inquiry (ii) Observation (iii) Inspection; and (iv) Reperformance. Key controls to be tested have been identified in Appendix 5 (Risk Control Matrix and Work program).

**Sampling Criteria**

Sample selection may be based on statistical, judgmental, or high value methods. For tests of control design - 1 sample. For tests of operational effectiveness by reference to their control frequency as outlined below:

Control frequency	Sample Size	Notes
Annual	1	
Semi-Annual	2	
Quarterly	2	
Monthly	3	
Weekly	8	
Daily	15-25	
Automated	1	

Audit Phase	Activities	Time budget (hours)		Staff responsible
		Allocated	Executed	
Start & Planning	Draft the Assignment Letter and get it signed off.			
	Draft the notification letter, get it approved, and send to auditee.			
	Opening meeting. Organizing the meeting and issuing the minutes.			
	Planning activities including review and analysis of information, identification of reference frameworks, interviews, review of process maps and procedure documents, risk assessments.			
	Objective setting.			
	Define the audit scope.			
	Establish evaluation criteria.			
	Resource allocation.			
	Issuance of the risk and control matrix & audit program including identification and assessment of key risks, identification of key controls, selection of audit procedures, sampling strategy.			
	Issue the engagement planning memorandum and get it approved.			
	Issue the engagement work program.			

Audit Phase	Activities	Time budget (hours)		Staff responsible
		Allocated	Executed	
Fieldwork	Draft the objectives and scope memorandum and get it signed off for kick-off meeting.			
	Kick-off meeting. Organize the meeting and issue the minutes.			
	Testing activities.			
	Summarize test results and recommendations.			
	Issue audit findings forms.			
	Wrap-up meeting. Organize the meeting and issue the minutes.			
Reporting	Draft audit report, get it signed off, and send it to the auditee			
	Contradictory procedure. Organize the meeting and issue the minute.			
	Draft the final report, get it signed off, and send it for approval.			
	Send the approved final report to the auditee.			
	Prepare follow-up actions to monitor the implementation of recommendations.			
<b>TOTAL</b>				



**Estimated Audit Costs**

<b>Budget Code</b>	<b>Category</b>	<b>Planning</b>	<b>Executing</b>	<b>Reporting</b>	<b>Total</b>
0001	Employee costs				
0002	Travel				
0003	Printing & Stationery				
0004	Outsourced Professional Services				
0005	Employee appreciation awards				
0006	Audit Software				
	<b>Total project cost</b>				

# Appendix 7.

## Example of an Assignment Letter

### **NAME OF INDIVIDUAL, POSITION**

### **DATE:**

**SUBJECT:** AUDIT OF [XX] – ASSIGNMENT LETTER

The internal audit department would like to formally inform you that an internal audit addressing *[insert audit subject]* is scheduled to start on [XX] and is planned to be finalized by [XX]. The audit engagement will be carried out at *[insert location]*. The objective and scope of the audit engagement are as follows:

*[Insert Audit Objective]*

*[Insert Audit Scope]*

The audit team will be supervised by [XX]. The Team Leader will be [XX], and the Audit Team Members will be [XX]. I confirm that the audit team collectively possesses the necessary skills and competence to perform the audit.

We would be grateful if you could nominate a designated contact person from your department for the duration of the audit engagement. This focal point is expected to act as a central coordinator to handle audit requests and queries and minimize operational disruptions to your team. Please inform us of the person you have designated for this role at your earliest convenience.

Subsequently, we will arrange an opening meeting to request for preliminary documentation and discuss logistical matters such as office and access arrangements. During the opening meeting we will also provide you with a detailed overview of the audit objectives, scope, as well as the audit methodology deployed.

We request your kind cooperation in providing the requisite information and facilitating the audit process.

**Head of the IA Department**

