



OFFICE OF THE CITY AUDITOR
CITY OF AUSTIN

REFERENCE MANUAL

PREPARATION OF WORK PAPERS

SECOND EDITION
2003

To OCA Auditors:

This Work Paper Reference Manual is intended to assist in preparing work papers that meet *Government Auditing Standards*. Auditors In Charge and Assistant City Auditors should assist their teams in defining exactly what procedures will be used.

All teams, however, should adhere to the indexing and the cross-referencing guidelines set forth in this manual.

This manual is presented as a supplement to the Audit Guide and Style Manual.

TABLE OF CONTENTS

WORK PAPER STANDARDS	4
PURPOSES OF WORK PAPERS	5
CHARACTERISTICS OF GOOD WORK PAPERS	6
ASSESSING EVIDENCE	7
WORK PAPER SUBSTANCE	9
SUMMARIES/CRITICAL ANALYSIS	10
WORK PAPER FORMAT	11
ELECTRONIC WORK PAPERS	12
ORGANIZATION AND ASSEMBLY	13
INDEXING	15
CROSS-REFERENCING	16
WORK PAPER QUALITY/REVIEW	17
SAFEGUARDING/RETENTION	18
CHECKLISTS	19

WORK PAPER STANDARDS

The Office of the City Auditor is required by City Ordinance to follow *Government Auditing Standards* (the Yellow Book).

Read relevant sections of the 2003 Edition of the Yellow Book that pertain to performance audits: Sections 7.07, 7.17, 7.22, 7.40-7.43, 7.47, 7.54, 7.60, 7.63, 7.66-7.71, 8.17, 8.21, and 8.55-8.56. These sections provide information on the types of audit documentation to retain.

In addition, the Yellow Book requires that certain American Institute of Certified Public Accountants (AICPA) standards on project documentation be followed for financial statement and financial related audits. For instance, read AICPA Statement on Auditing Standards (SAS) #96, Audit Documentation.

PURPOSES OF WORK PAPERS

The fieldwork standard related to audit documentation for performance audits performed in accordance with *Government Auditing Standards* (GAS) is:

Auditors should prepare and maintain audit documentation. Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor, who has had no previous connection with the audit, to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions. Audit documentation should contain support for findings, conclusions, and recommendations before auditors issue their report.
(GAS 7.66)

Work papers are assembled to meet multiple purposes. Following is a list of reasons why work papers are assembled. These are not listed in order of importance, but all are important. (7.68)

- Records planning for the audit and planning during the audit (GAS 7.07)
- Records work performed that is relevant to the audit objectives (GAS 7.67)
- Assists auditors in following applicable standards (GAS 7.68 [b])
- Enhances supervisory review of audit quality (GAS 7.68 [d])
- Provides the foundation for the report (GAS 7.68)
- Ensures that adequate evidence is gathered
- Ensures the audit process is followed
- Determines what remains to be done
- Identifies audit issues outside the audit scope/program
- Compiles data into manageable chunks
- Allows study of patterns/trends within auditee's operations
- Supports detailed discussions with auditee
- Provides continuity in case of changes in staff or assignments
- Provides evidence for litigation or administrative actions
- Provides background and reference data for subsequent reviews
- Assists in training auditors
- Provides a means of appraising an auditor's technical ability, skill, and work habits
- Provides concrete evidence of what is known/not known and in what level of detail
- Assists in conceptualizing findings by allowing individuals/team to view all data as compiled
- Provides defense if audit work challenged
- Facilitates report writing and substantive review by providing an organized framework for audit evidence

Note: The Yellow Book requires a minimum retention of evidence in the work papers. Evidence retained should be significant to the objectives of the audit and the issues addressed in the report or management letter. Familiarize yourself with GAS 7.68.c and footnote # 87.

CHARACTERISTICS OF GOOD WORK PAPERS

Characteristics:

- Capture significant information relevant to audit objectives. Include description/details of work performed which is relevant to the objectives
- Contain essential elements (title, source, purpose, who prepared, date, summary/conclusion if appropriate)
- Stand alone/clear
- Demonstrates relevant connection to other WPs
- Consistent
- Neat
- Uniform
- Economical
- Organized
- Accurate
- Hand written notes must be legible and neat
- Tick marks, symbols, abbreviations all explained

ASSESSING EVIDENCE

The GAO/Yellow Book Chapter 7 discusses types of evidence that auditors gather in fulfilling the audit objectives. (GAS 7.48 - 7.65)

Categories of evidence (GAS 7.50):

Physical evidence is determined by direct inspection or observation of people, property, or events.

Documentary evidence is collected through the review of relevant created documents.

Testimonial evidence is gathered through inquiries, interviews, or questionnaires.

Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments.

Evidence must be (GAS 7.48 - 7.61):

Sufficient - defined as the presence of enough factual and convincing evidence to support the auditor's findings, conclusions, and recommendations. Sufficiency may be determined by auditor judgment or applying statistical methods. (GAS 7.52.a)

Competent - refers to the consistency, validity, and reliability of the evidence. Valid evidence is supported by credible sources. Reliable evidence is consistent in occurrence. (GAS 7.52.b, 7.53 - 7.54)

Relevant - defined as evidence, which has a logical relationship to the audit finding, issue, or objective. (GAS 7.52.c)

Auditors are responsible for **assessing the reliability and validity of computer-based data** when used to support audit findings. The origin and subsequent manipulation of information are important in judging the accuracy and completeness of data. (GAS 7.59 - 7.61)

Auditors are also responsible for assessing the reliability and validity of data gathered/produced by the auditee or other third parties. Auditors should examine the internal controls over the data and perform sample tests on the data. (GAS 7.32 - 7.34 and 7.57 - 7.58)

More than one type of evidence should be used to support and corroborate a potentially controversial negative finding. The AIC and the audit team need to decide whether one type of evidence is sufficient to support conclusions drawn.

The Auditor In Charge should assess, through work paper review, what information is relevant, competent and sufficient to support the audit findings.

The AIC should: (1) eliminate duplicate and unnecessary documents, (2) ensure good work paper organization, and (3) direct any reorganization of the work papers.

The cost of preparing work papers is a significant part of the cost of the work we do. Caution should be used to not accumulate and retain unnecessary and duplicative documents.

Refer to GAS 7.68 and footnote # 87. As an office, we should take advantage of the flexibility allowed by the Yellow Book pertaining to what is retained in the work papers. Become a critical thinker. Don't kill so many trees.

WORK PAPER SUBSTANCE

A work paper should **stand alone**.

That is, no additional oral explanation should be necessary. Any auditor unrelated to the project should be able to readily determine the following for each work paper: purpose, nature and scope of any analysis, and support for the auditor's conclusions.

Work papers should state a purpose for the document.

The purpose should **be related to an audit objective** and should support the auditor's conclusions.

For an analysis, work papers should **describe** the scope of information subject to review and any testing, sampling, or other methodology used to evaluate information (GAS 7.68 [c] and footnote #87). If the work paper is a spreadsheet, this explanation of scope and methodology should be attached to or incorporated into the spreadsheet. If the auditors prepare a spreadsheet or compilation, the work paper should include the statement "analysis prepared by OCA from _____," stating the sources and specific page numbers of reference material.

Work papers obtained from other sources should include **the source of the documentation** (person's name, department, publication name, date obtained, and if possible, person's title and telephone number). Completely identify the person and/or document from which the evidence was acquired.

Work papers from which conclusions are derived should include a description of the results that led the auditor to logically arrive at those conclusions. **Conclusions** should directly address the purpose of the work paper.

Work papers should be limited to matters **relevant to the audit objectives**.

All data retrieved for a sample does not need to be retained. However, the summary work paper should clearly state the criteria used to pull the sample, a description of the universe, and conclusions drawn from the sample results.

Calculations performed by a computer should be documented so any other auditor could repeat the process. This includes spreadsheet calculations.

The following should be understood:

- **what the auditor set out to do (PURPOSE)**
- **the logical steps completed by the auditor (SOURCE, PROCEDURE, RESULT)**
- **what the auditor concluded (CONCLUSION)**

SUMMARIES/CRITICAL ANALYSIS

A summary/critical analysis is a synopsis, which conveys an auditor's conclusions and interpretation of work performed or documents reviewed or analyzed. Any summary/critical analysis when included in the work papers should add value. It should be more than the sum of the parts, rather than a repeat of statements in the supporting documents or in the report. It would span any gap that exists between individual work papers and the SRP or report if needed.

A summary/critical analysis can support the SRP or report and can be a useful means of efficiently presenting information. Methodologies used and conclusions referenced in the summary/critical analysis should tie directly to the survey plan/fieldwork plan and/or supporting work papers. **All should clearly tie to the audit objectives.**

The AIC and the audit team are responsible for discerning when summaries/critical analyses are needed. In most cases, a summary/critical analysis is placed in front of the work papers, which it summarizes.

WORK PAPER FORMAT

Prepare most work papers on 8 1/2 x 11 sheets on the computer.

Use the header to include the project number (time accounting code) and the project name.

The body will include a title and information related to the type of document. For example, in an interview write-up, include date, interviewee, interviewer, purpose, major results, and the details. See templates in the Audit e File.

Use the footer to include the date prepared, initials of preparer, document page numbers (multi-page documents should have each page numbered and numbers should be consecutive), index number, and review block. See template in Audit e File.

Work papers should contain the initials of the reviewer and the date reviewed.

Handwritten work papers should be neat and well organized.

For documents received from external sources with inadequate margins, attach a cover sheet to state the purpose, source, etc. If it is not possible to punch holes in the left margin, use a pocket envelope.

Only one side of a created work paper should be used to facilitate review. However, when a two-sided document is obtained from an external source, it is not necessary to make a one-sided copy. If the margins are too small to punch holes or insert cross-referencing, place the two-sided document in a pocket envelope.

Avoid writing notes in the margins of a work paper. If more information is needed, insert the information electronically or append it to the original.

Review comments should be:

1. Noted using numbers (1, 2, 3, etc.) in the margin of the work paper and
2. Recorded on the Work Paper Review template found in the Audit e File.

ELECTRONIC WORK PAPERS

Except for auditee and third party documentation, our office produces work papers by computer. Electronically produced documents should contain all of the same elements discussed in this manual. Review and documentation of review can be done online. Footnotes and hyperlinks can be used for cross-referencing purposes.

Electronic work papers should be arranged in the same manner as hard copies using the required indexing strategy and assigned numbers.

Because some documents are received in hard copy, some physical binders will still be necessary. Scanning takes up significant storage space on the computer and should be avoided.

After the completion of the audit when all review notes have been cleared, the AIC should request that a CD of the audit documentation be burned. All electronic media should include a label with the following information:

- the audit number and title,
- the software used (Word 2000, Excel 2000, etc.), and
- the system software (Windows 98, Windows 2000, etc.).

Documents must be retrievable throughout the retention period.

ORGANIZATION AND ASSEMBLY

PLANNING

The audit team should include in its initial planning how the work papers will be assembled during the survey phase (i.e. by survey objective, by topic, etc.) and how the work papers will be numbered/indexed. See the Audit e File for required document placement and indexing. Following the approval of the SRP, the audit team should plan the binders for the fieldwork and report writing phases.

The survey plan maps out the work to be performed to identify and rank risks and vulnerabilities. The plan also assists the audit team in conducting its work efficiently. The survey work normally results in a Survey Results Package (SRP), which states clear, doable audit objectives, the scope, and methodologies for achieving the objectives. These objectives should be well documented by evidence in the work papers.

The fieldwork plan lists detailed steps necessary to accomplish the audit objectives.

During the fieldwork phase of the audit, the work papers should be used to document evidence that supports the objectives of the audit and the conclusions drawn.

The individual work papers should support the survey and fieldwork plans, as well as any summary and/or RAF, and summaries and/or RAFs should support the final report.

BINDERS

Each binder should contain a table of contents. Be sure to use the **assigned index numbers** listed in the checklist found in the Audit e File for specific pages.

The table of contents should either list each individual work paper or, if natural groups occur, such as a group of DCIs or survey documents, the group should be listed. Each AIC and team should make these decisions in the early planning stages of the audit.

In most cases, a summary, a RAF, or a summary of several related RAFs would be present in each binder. This is left to the discretion of the AIC.

Keep the size of work paper binders manageable (approximately 2 inches). When the binders get too large, paper tears and sheets may be lost.

Binders should be numbered when sent for final review and the range of index numbers should appear on the cover. (Example: 1 of 12, 2 of 12,, 12 of 12,) This ensures that we can account for all binders related to the audit report.

Binder covers should be completed, **preferably in ink** (pencil smudges): audit name (title), responsible department, project number, range of binder index numbers, period covered, binder number, etc.

An administration binder/binders (always make the administration binder number 1) should contain the following type of documents: administration binder table of contents, list of all binders, statement of independence, entrance and exit conferences materials and write-ups and letters, mid-point information, audit committee presentation, [review notes including auditors' disposition,] binder checklist (see Audit e File), relevant correspondence, NALGA abstract, and management's response.

All landscape documents should be mounted horizontally and folded in to 8 1/2 inches.

With mixed portrait and landscape, landscape should be mounted horizontally (reviewer should not have to turn the binder)

IMPORTANT NOTE

Auditor's notes or annotations on a single work paper should be held to a minimum. Get in the habit of attaching an additional sheet with pertinent comments and analyses instead of writing in any available space at all angles. Occasionally a work paper may need to be redone in order to clarify important information.

However, auditors should make every effort to minimize complete rework of work papers. For example, some review comments may be cleared by adding a handwritten footnote, using editing marks (such as strike-through or an insertion caret), or adding reference to clarifying comments on an attached page.

INDEXING

A good indexing system enables the audit team to organize work papers throughout the audit and the reviewer to assess supporting evidence quickly and efficiently. Indexing refers to the page numbering system.

The following indexing system will be followed:

Admin. Binder(s)	A100-A999
Survey Binder(s)	S100-S999
Fieldwork Binder(s)	F100-F999
Report Binder(s)	R100-R999

Each work paper must have a unique index number. Index numbers should be in **red pencil** at the bottom right corner of the page.

Index numbers should be consecutive whole numbers (i.e., A100, A101, A102, —, A111).

All multi-page documents should have each page numbered sequentially at the bottom center. Exceptions can occur, such as when photocopies are inserted and the original document page numbers are located elsewhere.

For work papers that are folded (e.g. printouts, spread sheets, and other landscape-style materials), the page number should appear inside and outside the fold.

After pages have been numbered, if a work paper is:

- deleted, write the omitted index number(s) on the succeeding page under its index number.
- added, the inserted page should be indexed with a two-digit decimal (e.g., A100, A101, **101.01**, 102..).

WORK PAPER CROSS-REFERENCING

The purpose of cross-referencing is to ensure that sufficient, competent, and relevant evidence has been accumulated to support all findings in the audit report. (GAS 8.45) Any method of cross-referencing **should take into account the ease with which a reviewer may verify the accuracy of the information.**

To facilitate efficient review:

- Each work paper should have a unique index number to facilitate referencing.
- All cross-references should be done in **red pencil**.
- Incoming references should generally be placed in the left margin and outgoing references in the right margin and both should consist of the index number and the page number of the reference.
- An incoming reference on one work paper should be traceable to an outgoing reference on a second work paper.
- The references should be positioned on the document next to the statement supported.
- References typed in the body of a document should be **bold** and **italicized** or if entered later in **red**.
- Multiple references to the same document on the same page should be lettered to clearly identify reference location.
- References within the same page should be circled numbers with arrows to assist locating.
- The survey plan, SRP, fieldwork plan, and the audit report should be referenced to the work papers.
- All symbols used on a work paper should have a legend.

Spreadsheet referencing:

Because it is cumbersome to place a cross reference in each cell of a spreadsheet or table, the following suggestions are offered.

- Set up the spreadsheet/table so that complete rows or columns can be referenced to a source document.
- If it is not functional to prepare a spreadsheet that can be referenced by column or row, create several spreadsheets with the same fields, each from one source, and then consolidate them into one document. The individual spreadsheets are then referenced to source documentation and the consolidated document can be easily referenced to the individual ones.
- Color-coding data from the same source may accomplish the same result as the method above.
- For a spreadsheet/table with embedded calculations, accompany the data spreadsheet/table with one that shows the embedded formulas.
- If abbreviations are used in the spreadsheet/table, attach a cover sheet that defines those abbreviations. The cover sheet can also be used to explain calculations used in the spreadsheet/table or to explain what data was drawn from each source.
- When spreadsheets are extremely cumbersome in size, it may be best to burn the spreadsheet to a CD and include the CD with the work paper binders.

WORK PAPER QUALITY/REVIEW

Auditors should assess their own working papers for clarity, consistency, readability, and relevancy so as to ensure work paper quality from the start.

Auditors in Charge are responsible for the quality of the work papers produced by the team members. Cross review among team members improves the quality of individual write-ups and RAFs. For work papers prepared by the AIC, either the supervising ACA or a team member assigned by the ACA should review the AIC's work. AICs should establish this procedure at the beginning of the audit.

Assistant/Deputy City Auditors should perform substantive review of major documents and may review the supporting work papers throughout the audit to ensure quality.

Work paper binders supporting the SRP should be complete and available when submitting the SRP for approval by the ACA.

Work paper binders supporting the report should be reviewed at the completion of the detailed report outline in order to ensure that

- the outline contains all the major findings contained in the audit evidence, and
- the main messages of the report are supported by sufficient, competent, and relevant evidence.

All parties are responsible for ensuring:

- compliance with GAS,
- compliance with OCA policies and guidelines,
- relevance to audit objectives, and
- factual accuracy.

,

SAFEGUARDING/RETENTION

During the audit, all documents obtained and produced should be kept in a safe manner. Auditors should obtain the City Auditor's approval prior to releasing any OCA-produced documents related to an audit before the audit is presented to the Audit and Finance Committee. If the materials have been requested under the Open Records Act, critical deadlines go into effect from the date of the request. Accordingly, the OCA admin staff must coordinate with City officials, such as Law and PIO, and must be notified immediately upon receipt of an open records request. This does not preclude sharing information with our auditees and CMO. (GAS 7.71)

Following the completion of an audit, all work paper binders related to the audit are to be stored in the file room. (GAS 7.69) Retention is to ensure that:

- work papers are not misplaced, stolen, altered, or removed from the premises (except to be archived),
- documentation is available to support audit conclusions should questions arise or legal proceedings be undertaken, and
- peer review can be conducted.

Office policy is that the work papers for each audit should be complete, in and of themselves. No Z files will be stored with the work paper binders. Any other material that the auditor wishes to retain will be his/her responsibility and must be stored in that auditor's cubicle. Some additional materials may be of general interest and should be given to the librarian for reference materials or a resource file.

WORK PAPER CHECK LISTS

ADMINISTRATION BINDER

	WP Index Number	AIC Checked Existence
Listing of all binders with brief description of contents	A101	
Table of contents for this binder	A100	
AFC presentation	A102	
NALGA abstract	A103	
Time accounting final project report	A104	
Independence statement	A105	
Notification(s) of audit (entrance/engagement letter)	A106-110	
Entrance conference(s) write-up	A111-115	
Entrance conference materials		
Exit conference(s) write-up	A116-120	
Exit conference materials		
Mid-point conference write-up		
Mid-point conference materials		
Other important briefings		
Approved/Referenced Survey Plan	A130	
Draft survey plan(s) with substantive review/changes by ACA/DCA		
Other relevant correspondence		
This check list		

WORK PAPER CHECK LISTS

SURVEY BINDERS

	WP Index Number	AIC Checker Existence
Table of contents for this binder; if more than one survey binder, each should have TOC		
Approved/Referenced SRP	S101	
Draft SRPs with substantive review/changes, reviewed by ACA/DCA		
Preliminary RAFs cross referenced to WPs		
Risk and vulnerability assessment	S102	
Supporting documents		
This check list		

Supporting documents include but are not limited to:

- Auditee organizational chart
- Auditee mission, goals, objectives, performance measures
- Auditee self-assessment
- Flowcharts
- Program descriptions
- Summaries as needed
- Questionnaires
- Surveys
- Interview write-ups
- Sample documents
- Legal requirements
- Prior studies/audit recommendations
- Financial and performance reports

WORK PAPER CHECK LISTS

FIELDWORK BINDERS

	WP Index Number	AIC Checked Existence
Table of contents for this binder; each fieldwork binder should have TOC		
Approved/Referenced Fieldwork Plan	F101	
Summaries as needed		
RAFTs cross referenced to WPs		
Supporting documents		
Draft fieldwork plan with substantive review		
This check list		

Supporting documents include but are not limited to:

- Sample justification memo
- DCIs
- Memos on changed scope or objectives
- Memos on scope impairments
- Summaries as needed
- RAFTs
- Computer analyses
- Spreadsheet explanations
- Observation write-ups
- Interview write-ups
- Surveys conducted
- Sample documents

WORK PAPER CHECK LISTS

REPORT BINDER

	WP Index Number	AIC Checked Existence
Table of contents for this binder		
Final Bound Report	R101	
Cross referenced report	R102	
All responses to report recommendations (originals)	R103	
CA review of draft report	R110	
DCA review of draft report	R120	
ACA review of draft report	R 130	
Draft report(s) with substantive review/changes by AIC		
Notes on changes made to report due to auditee's requests		
Approved report outline	R140	
Draft report outlines with substantive review	R150	
This check list		