



Office of the City
Auditor
City of Austin, Texas

Understanding Records of Audit Finding and Preliminary Records of Audit Finding

September 7, 2001

Presented by:
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Schedule

9:00	Introduction & course objectives
9:15	Refresher: Types and tests of evidence
10:00	Elements of a finding
10:30	BREAK
10:45	Relationship between PRAFs and RAFs
11:30	LUNCH
1:00	Case Study: Practice developing RAFs from different types of evidence
3:00	BREAK
3:15	Report out RAFs & Develop preliminary report outline
4:00	Summary and evaluations

Objectives

At the end of this training, participants will be able to:

- Understand the difference between a PRAF and a RAF
- Understand the different standard tests for audit evidence in survey versus fieldwork
- Recognize facts and evidence developed during audit procedures that would be elements of a PRAF/RAF
- Articulate the elements of PRAFs/RAFs
- Describe facts and evidence they have recognized in terms of PRAF/RAF elements
- Understand how and where RAFs/PRAFs fit in the audit process
- Apply the approach in an example case
- Understand the relationship between PRAFs, RAFs, and report findings

Types and Tests of Evidence

AUDIT EVIDENCE

What is audit evidence and what is its purpose?

- the information gathered during fieldwork
- it should provide a factual basis for audit opinions, conclusions and recommendations

Four types of audit evidence (from strongest to weakest):

- Physical
- Documentary
- Analytical
- Testimonial

Physical Evidence:

- The strongest form of evidence.
- Obtained through observation or collection of such things as photos, maps, charts, graphs, etc.
- Should be collected with two auditors present.
- When possible, a representative of the auditee should be present.
- If auditor observation is the only evidence, the auditor must determine, on a case by case basis, the necessary extent of verification.

Documentary Evidence:

- The most common form of evidence.
- Two types:
 - internal (records or outgoing correspondence)
 - external (letters or memos received by the auditee)

Analytical Evidence:

- Analyses and verification.
- Sources are computations; comparisons with standards, historical operations, similar operations, and laws, regulations and policies.
- Auditors must take care to ensure calculations and methods of analysis are thoroughly documented to allow for an understanding of how the conclusions were reached.

Testimonial Evidence:

- Usually does not stand alone.
- Statements or letters responding to the auditor.
- Consists of things such as interviews and responses to questions posed via the telephone or e-mail.
- Policy encourages interviews to be conducted by two or more auditors.
- If testimonial evidence is resulting in significant issues, or the individual interviewed tends to change his/her story, it may be necessary to submit interview notes to the individual for review and initial your notes.

Standards of Audit Evidence

- Relevant: Supports findings and recommendations and is consistent with the objectives. (GAS, Red Book)
- Competent: Reliable and the best attainable. (GAS, Red Book)
- Sufficient: Factual, adequate and convincing. (GAS, Red Book)
- Useful: Necessary to support findings and recommendations (Red Book)

Persuasive evidence must meet/exceed all of the standards.

Guidelines to measure whether evidence meets/exceeds the standards.

- Relevant: Relevance

- Competent: Objectivity
 Documentation
 Externality
 Sampling Methods
 Corroboration
 Timeliness
 Authoritativeness
 Directness
 Adequacy of Controls

- Sufficient: Sample Size
 Sampling Methods
 Corroboration

Sources:

Sawyer, Lawrence. *The Practice of Modern Internal Auditing Standards for the Professional Practice of Internal Auditing* (Red Book)
Government Auditing Standards (Yellow Book)
Ratliff, Richard L., Johnson, I. Richard. "Evidence." *Internal Auditor* (August 1998):56-61.

Exercise

What type of evidence is represented by each of the examples below?

How would you test the evidence (or what other information would be necessary) to ensure the evidence is relevant, competent, and sufficient?

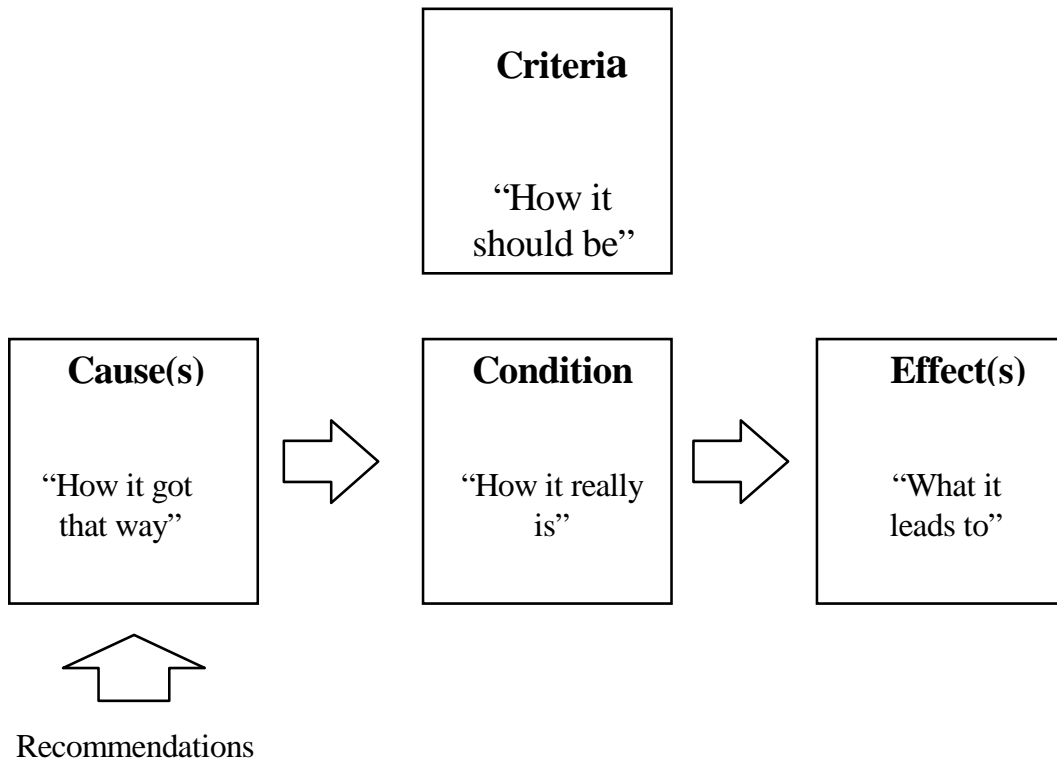
1. The housing department head stated in an interview that she forwarded a letter to the program staff stating the federal policy concerning economic development loan eligibility had changed.
2. Five of the 43 cities that responded "Yes" to having an ethics policy had a FY 99 annual budget of over \$1 billion.
3. In response to a question posed by the auditor, the auditee provided 30 email messages he received over the past six months on the issue.
4. Four of the six inventory items we tested were not located in their documented location.
5. All three of the staff interviewed stated that three steps are taken to de-escalate the youth prior to referring him to security.

Elements of a Finding

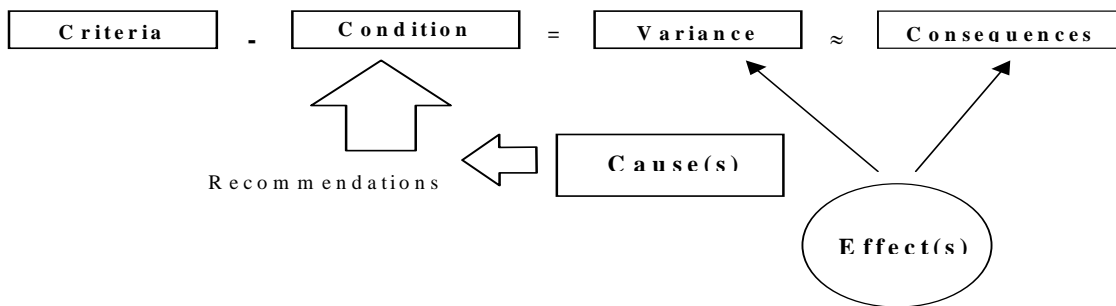
“Audit findings often have been regarded as containing the elements of criteria, condition, and effect, plus cause when problems are found. However, the elements needed for a finding depend entirely on the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding’s elements.”

*--Government Auditing Standards, 2003 Revision
7.62, fieldwork standards for performance audits*

Logical view of relationship among elements



Mathematical view of relationship among elements



Finding Types	Elements in Finding
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Descriptive	Condition
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Example: The annual cost to incarcerate a prisoner was \$67,800 in 1998.

Normative	Criteria and Condition
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Examples:

The annual cost to incarcerate a prisoner is \$67,800, compared to a total \$52,000 per year paid by comparable prisons.

The annual cost to incarcerate a prisoner was \$67,800 in 1998, although the budget appropriation authorized a net \$58,000 per prisoner.

Traditional/Causal	Criteria, Condition, Cause, Effect
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Example:

The annual cost to incarcerate a prisoner was \$67,800 in 1998, although the budget appropriation authorized a net \$58,000 per prisoner, resulting in a total deficit for the period of \$17.8 million. The additional costs were caused primarily by a significant increase in labor and benefit costs following execution of the September 1997 union contract.

Impact	Condition with cause (intervention), Condition without cause, Effect
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Example:

Recidivism rates for alcohol-dependent inmates who received the specialized treatment program were significantly lower than the recidivism rates of alcohol-dependent inmates who did not receive the treatment.

Identify the elements of a finding in the following paragraphs.

The lack of clarity in the “fair market price” terminology has contributed to a disparity in litter pick-up contract prices. During the period under audit, litter pick-up prices in the Austin area ranged from \$25 per acre to \$7 per acre. While some variance in per-acre prices can be expected due to differences in factors such as litter volume or dump fees, it seems unlikely that prices should vary to this extent. The wide variance in litter pick-up prices suggests that the State may have paid too much for some litter pick-up services.

The divisions do not routinely monitor to ensure compliance with the Federal Highway Program Manual’s (FHPM) deadlines. Specifically, these deadlines call for the department to begin construction within 10 years of funding for right-of-way acquisition activities, or to begin acquiring right of way within five years of funding preliminary engineering projects. If the construction or acquisition of right of way does not begin within the deadlines, the Department is liable to repay the total federal funds provided on the project. Although we did not note any instances where the deadlines had not been met, failure to monitor compliance with these requirements places the Department at risk for these funds, and may delay conversion of federal obligations to cash.

Each subrecipient or contractor that receives JTPA funds is required to submit annual closeout financial reports to the Department no later than 90 days after the end of the annual program period. Since the Department's federal status report is due before subrecipient have submitted their closeout reports, any differences between the expenditure totals on the two reports are adjusted in the next program year's report. Therefore, actual expenditures by program year are misstated. These reports, used for biannual budget preparation, have led to inadequate funding for program activities. Twice in the period under review the program had made emergency funds requests to avoid deficits.

Relationship between PRAFs and RAFs

Audit of City of Austin Branch Library Efficiency (1989) **Preliminary Record of Audit Finding No. 1**

Preliminary Criteria:

Organizations should conduct strategic and annual planning. Plans should include performance objectives and establish measures by which to assess progress towards achieving objectives. (Prudent Business Practices)

Preliminary Condition:

APL does not conduct strategic or annual planning outside of the budget process. No performance goals or objectives have been established, nor measures to track accomplishment of objectives.

Preliminary Effect:

Management uses data on workload and inputs to plan and monitor performance.

Preliminary Cause:

Strategic and annual performance planning (to include performance objectives and measurement) are not required by City Management.

Preliminary Record of Audit Finding No. 2

Preliminary Criteria:

Management control systems should include data collection, reporting, and monitoring to assess and manage performance. (Prudent Business Practices)

Preliminary Condition:

APL's mainframe computer is programmed to collect data on a wide variety and large quantity of transactions and activities. The system produces over 32 reports, of which 24 are administrative or technical in nature (such as purchase order and inventory maintenance). The remaining 8 provide information for management (such as circulation statistics and age/zip code of patrons).

Preliminary Effect:

Are managers overloaded with information, or do they have the information they need to manage effectively?

Preliminary Cause:

Is the data that is collected and reported useful, timely, relevant, and reliable?

CLASS EXERCISE:

Review relevant pages from Library Audit and complete the following RAF forms.

Branch Library Performance

Criteria:

Condition:

Effect:

Cause:

CLASS DISCUSSION:

What are the differences between PRAFs and RAFs?

TEAM EXERCISE:

1. Review case study workpaper summaries and prepare P/RAF forms based on the information included.
 - Mouse Interview – All Teams
 - Monthly Report Review – All Teams
 - Analysis of Permit Requests – All Teams
 - Franchise Agreements Review – Team 1
 - Utility Clearance Meeting Review – Team 2
 - Causes and Frequency of Utility Cuts – Team 3
2. Report out on findings.
3. Discuss overall conclusions starting to emerge from findings—begin a draft outline of key findings and conclusions.

SUMMARY AND CONCLUSIONS:

What did you learn today that you can use back at work?