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	<b>240.00 AUDIT/ENGAGEMENT DOCUMENTATION &amp; WORKPAPERS</b> LAST REVISED: JULY 18, 2022	

## **AUDIT/ENGAGEMENT DOCUMENTATION & WORKPAPERS**

### **DEFINITIONS –**

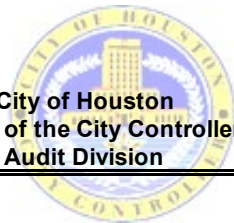
**AUDIT/ENGAGEMENT INFORMATION** - all information gathered during the audit/engagement process that is considered to be within the audit/engagement scope and meeting the audit/engagement objectives.

**AUDIT/ENGAGEMENT EVIDENCE** - documentation containing all the facts obtained by the auditor which, after appropriate analysis and evaluation, adequately support findings and conclusions that meet the audit/engagement objectives. Audit/engagement evidence, which is cumulative in nature, includes information gathered from procedures performed during the course of planning and conducting the audit/engagement and those that originate from other sources, such as previous findings, recommendations and management responses. Audit/engagement evidence must be *sufficient* and *appropriate*. *Sufficiency* is the measure of the *quantity* of audit evidence. *Appropriateness* is the measure of the *quality* of audit evidence, defined here as its relevance and reliability in providing support for findings and conclusions that are valid, accurate, appropriate and complete.

Auditors should evaluate evidence taken as a whole to determine if the evidence is sufficient and appropriate for addressing audit objectives and supporting audit opinions reached. Audit risk and significance considerations should be used to assist the auditors with evaluating audit evidence. Professional judgment helps determine the sufficiency and appropriateness of evidence taken as a whole. When appropriate, auditors may use statistical and data analytic methods to analyze and interpret evidence to assess its sufficiency. Assessment of audit evidence taken as a whole, should be reported on as a result of these techniques. In addition, and in appropriate circumstances, auditors can use the work of others (other City internal auditors, external auditors, professional firms, and/or specialists) or information and testimony from officials while performing their own work. If they use the work of others, they must document that the work was evaluated and could be relied upon. Evidence regarding this effort should include evaluation of the qualifications and independence of those who performed the work and should determine whether the scope, quality and timing of the audit work performed by others is adequate for reliance in the context of the current audit objectives. Testimonial evidence should be analyzed and evaluated for its objectivity, credibility and reliability.

**AUDIT/ENGAGEMENT OBJECTIVES** - represent what the audit/engagement is supposed to accomplish. Objectives identify the audit subject matter and performance aspects and may also be thought of as questions that the audit seeks to answer. An initial objective may be further refined and granulated throughout the engagement process. Any material facts that arise during the assignment that can be pertinent to the work undertaken may be used to modify the assignment or documented as future audit leads to be considered under other assignments.

**AUDIT/ENGAGEMENT DOCUMENTATION** - the systematically formatted, standardized evidentiary record that contains required elements and becomes the archived support of the auditor's planning, decisions, analysis, evaluations, findings, conclusions and recommendations (whether or not they are contained in the final audit/engagement



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deliverable). Audit/engagement documentation, also known as workpapers or working papers, is the official record of the auditor's work.

**NOTE:** Audit/engagement documentation can be in hardcopy or electronic form (electronic workpapers).

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**PURPOSE –**

- Provides verifiable support that the audit/engagement was planned and executed in compliance with professional auditing standards through a formal record of evidence;
- Acts as a basis for the documented supervisory review of the proficiency and competency of the work performed and the sufficiency and appropriateness of the evidence included; and
- Serves to uphold the assurance of quality verified by measures of internal review, self-assessment and external peer review.

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**APPROACH AND METHODOLOGY –**

**DOCUMENTATION PROCESS**

To support the performance of audit/engagements and the resulting audit report, the Audit Division (AD) considers including the following documents in audit/engagement workpapers.

**NON-AUDITOR GENERATED DOCUMENTS**

Non-auditor generated documents may include, but are not limited to, the following:

- Administrative Procedures (e.g., AP 2-2 Vehicle Assignment and Use);
- Executive Orders (e.g., EO 1-41 Executive Vehicle Assignment/Allowance);
- Mayor's Policies (e.g., MP 111.00 Temporary Appointments);
- Departmental Standard Operating Procedures (departmental SOPs);
- State and/or federal regulations and guidelines;
- Contracts/agreements;
- Process flow documentation (See [Procedures 220.30](#); [220.40](#); and [230.00](#));
- Correspondences (See [Procedure No. 260.00](#));
- Audit reports and audit workpapers prepared by the department (See [240.20](#));
- Monitoring activity documentation (e.g., documented departmental monitoring activities); and
- Response of responsible officials and applicable supporting documentation (management's response to audit/engagement findings, recommendations, conclusions and supporting documentation).

**AUDITOR GENERATED DOCUMENTS**

Required Audit Division forms and documentation include<sup>1</sup>:

- Planning Memorandum (Required) (See [Procedures 220.20](#); [240.10](#));

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<sup>1</sup> Nonaudit Service Engagements may not include all Required Documents.

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- Audit/engagement notification letters (Required) (See [Procedure No. 260.00](#));
- Engagement Risk Document (ERD) (Required) (See [Procedures 220.30; 220.40; 240.10](#));
- Tests of internal control (process workflow) documentation – Narrative and/or flowchart (Required) (See [Procedures 220.30; 220.40; 230.00](#));
- Approved audit/engagement programs (Required) (See [Procedure No. 230.00](#));
- Audit/engagement testing documentation (See [Procedure No. 230.00](#) for analysis and evaluation procedures that support the audit testing documentation);
- Sampling Methodology Document (Required) (See [Procedures 230.00; 240.10](#));
- Draft audit/engagement reports (Required) (See [Procedure No. 250.00](#));
- Acknowledgement Statement (See [Procedure No. 250.00](#)); and
- Final audit/engagement reports (Required) (See [Procedure No. 250.00](#)).

Other Audit Division forms and documentation include:

- Internal control questionnaires (See [Procedure No. 220.40](#));
- Engagement specific questionnaires
- Process walk-through document (See [Procedure No. 220.40](#));
- Information requests (See [Procedure No. 260.00](#));
- Entrance Conference documents;
- Audit Manager Checklist;
- Correspondences (See [Procedure No. 260.00](#), including letters, inter-office communication, status reports, and emails);
- Interview summaries; and
- Exit Conference documents.

**NOTE:** AD prepared documents that are included in audit/engagement workpapers should be identified as such. Where applicable, auditor generated workpapers should identify the purpose, scope, source, sampling methodology, work performed and conclusion(s).

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**CONTENTS/ELEMENTS OF A WORKPAPER –**

Every workpaper attachment should contain information in a heading format similar to the example on the following page:

  
**City of Houston**  
**Office of the City Controller**  
**Audit Division**

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**HEADING**

**CITY OF HOUSTON** **PAGE "X" OF "Y"**  
**OFFICE OF THE CITY CONTROLLER**  
**AUDIT DIVISION**  
**PROJECT ID:**  
**PROJECT TITLE: INCLUDE CLIENT(S) OR DEPARTMENT(S) IN TITLE**  
**PREPARED BY:**

- **PURPOSE** – The objective of the audit/engagement procedure addressing the associated risk related to the step identified in the audit program;
- **SCOPE** – Boundaries of the testing parameters (e.g. time period, specific accounts and/or functions, etc.);
- **SOURCE** – Person, system, location of population and/or other related substantive data that was obtained pertaining to the testing procedure;
- **SAMPLING METHODOLOGY** – Technique used to select data set for testing procedure from a pre-defined population. The technique should be statistical or judgmental. In some cases, the entire population may be selected for review. The reason for 100 percent coverage would be noted in the workpaper. When a sample is selected for an internal control walk-through, the sampling methodology is also documented here. If a sample is selected for substantive testing, make reference here to the "Audit Sampling Documentation" form.
- **WORK PERFORMED** – Description of specific procedures executed including evidence and results that support conclusions rendered;
- **CONCLUSION** – Application of the auditor's professional judgment, competency, analysis, and evaluation of information gathered during the testing procedure.

**NOTE:** If the document is a word processing file (e.g., Microsoft Word) and it contains multiple pages, the lead/front page should contain the heading. The pages should be numbered as follows:

"X of Y" or "x/y" where "x" refers to current page number and "y" identifies the total number of pages. This information can be contained in the header or footer of the document page.

If the document is a spreadsheet file (e.g., Microsoft Excel), each tab of the file (which contains testing rather than underlying population data) should contain a heading to include purpose, scope, source, and where applicable sampling methodology, work performed, and conclusion.

**Note:** Non-auditor generated documents that are included in audit/engagement workpapers should be identified as such (e.g., "**For Information Purposes Only**", "City Ordinance", "Departmental Policy", etc.). The document must include the 'Source' and 'Purpose' and referenced to or embedded in the applicable workpaper. The note "For Information Purposes Only" would be **noted on any research** related to the audit engagement obtained including, but not limited to (e.g., internet research resulting in audit reports performed by other cities, articles, etc.). Identify in the document what information or pages pertain to audit by either referencing the page number(s) and/or highlighting relevant information/documentation within each document.

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**TICKMARKS –**

Tickmarks are characters, text, or symbols that the auditor uses to signal a footnote, summary, annotation, reference, cross-reference, etc. (See [Procedure No. 240.10](#)). Tickmarks are used at the auditor’s discretion, as long as they are adequately explained and consistent in application. Standard tickmarks used by the AD are as follows:

- ✓ (Marlett ‘a’) = Not an exception, OK, agrees, ties to testing conditions without exception
- ∑, <, ^ = sum, Cross foot, foot
- ✕ (Marlett ‘r’) = Exception noted (superscript or added number indicates multiple exceptions found – e.g. X<sup>1</sup>, X<sub>1</sub>, or X-1, etc.)
- R = Recalculate(d)
- N/A, ■ (Marlett ‘g’) = Not applicable
- w/o/e, woe, (nen) = Without Exception (no exception noted)
- p/f/a, pfa = Pass Further Analysis
- p/b/c, pbc = Prepared/Provided by Client (auditee)
- im = Immaterial

See additional procedures on referencing and cross-referencing at [Procedure No. 240.10](#).

**NOTE:** The AD operates in an electronic workpaper environment. For specific instructions, application features and functionality refer to the vendor’s software documentation.

**FINDINGS –**

When, as part of executing audit procedures, exceptions/findings are noted, workpapers are created that are specific to the issue(s) identified. The relevant information is gathered, documented and presented to responsible management, which serves to:

- Ensure proper communication of status and progress (See [Procedure No. 260.00](#));
- Verify that the associated facts, analysis and evaluation are accurate in relationship to the issue noted (See [Procedure No. 230.00](#));
- Allow for value-added recommendations to be developed during the course of the audit/engagement and provided to responsible management;
- Provide the opportunity for corrective action to be initiated with the ultimate goal of problem resolution; and
- Provide a mechanism for reporting evidence of fraud, waste and/or abuse.

Audit/engagement findings may involve deficiencies in internal control, improved efficiencies, potential fraud, suspected illegal acts, violations of provisions of ordinances, state law, regulations, contracts, grant agreements, or abuse. A potential finding or set of findings is complete to the extent that the audit/engagement objectives are satisfied. When auditors identify deficiencies, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the

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audit/engagement objectives and subsequent reporting. The elements of an audit finding are discussed in [GAGAS 6.25 – 6.28](#).

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**DOCUMENTED ELEMENTS OF A FINDING –**

**CRITERIA:** The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, policies, procedures, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

The following are some examples of criteria:

- Provisions of laws or regulations;
- Policies and procedures;
- Technically developed standards or norms;
- Expert opinions;
- Prior periods' performance;
- Defined business practices;
- Contract or grant terms; and
- Performance of other entities or sectors used as defined benchmarks.

NOTE: The Criteria can also be referred to as “Background” as long as its content is sufficient to reflect the attribute or baseline to measure and conclude:

**CONDITION:** The factual situation determined to exist during the audit/engagement.

**CAUSE:** The cause identifies the reason or explanation (or the factor(s) responsible) for the difference between the situation that exists (condition) and the required or desired state (criteria). This may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; lack of monitoring, or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

**Additional considerations of “CAUSE” for Performance Audits –**

When the audit/engagement objectives include explaining why a particular type of positive or negative program performance, output, or outcome identified in the audit/engagement occurred, they are referred to as "cause." Identifying the cause of problems may assist auditors in making constructive recommendations for correction. Because problems can result from a number of plausible factors or multiple causes, the recommendation can be more persuasive if auditors can clearly demonstrate and explain with evidence and reasoning the link between the problems and the factor(s) they have identified as the cause or causes. Auditors may identify deficiencies in program design or structure as the cause of deficient performance. Auditors may also identify deficiencies in internal control that are significant to the subject matter of the



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performance audit as the cause of deficient performance. In developing these types of findings, the deficiencies in program design or internal control would be described as the "cause." Often the causes of deficient program performance are complex and involve multiple factors, including fundamental, systemic root causes. Alternatively, when the audit/engagement objectives include estimating the program's effect on changes in physical, social, or economic conditions, auditors seek evidence of the extent to which the program itself is the "cause" of those changes.

**EFFECT OR  
POTENTIAL  
EFFECT:**

A clear, logical link is necessary to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit/engagement objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit/engagement, "effect" is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

NOTE: Condition, cause and effect can be detailed in a section titled "Finding".

**RECOMMENDATION:**

The recommended solution determined in collaboration with the client/auditee is based on connecting the 'condition' to the 'criteria', which results from correcting the underlying 'cause(s)'. This can be accomplished in a number of ways, which may include a change in:

- Processes (addition, modification, or removal);
- Job responsibilities; and/or
- Objectives.

**MANAGEMENT**

**RESPONSE:** Auditors should obtain and report the views of responsible management concerning findings and recommendations. Management's description of their interpretation, position, and proposed resolution, which may include any action performed to correct the issue (if it was addressed prior to issuing the draft or final report), is incorporated into the body of the report similar to "action taken". **Note: See Procedure No. 250 for the signed "Acknowledgement Statement".**

**ASSESSMENT  
OF RESPONSE**

The AD assesses the management response for adequate strategy, design of corrective action, timeliness and reasonableness of implementation, appropriateness of responsible party for implementation and established/committed timeline for remediation to be complete. It's important to distinguish that the focus of the AD assessment is on the remediation of the issues identified and not necessarily the

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recommendation offered. The AD assessment is of the sufficiency of the remediation process, while the recommendation is a measure of the AD's understanding of the business process, function, system and the value of the suggested remediation.

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**DOCUMENTATION & WORKPAPER REVIEW –**

When the AD is operating with a full authorized headcount, there are at least two levels of review for each project and a minimum of one for each document included as evidence. First, the Planning Memorandum and the ERD are prepared by the Auditor and reviewed by the audit manager and/or City Auditor before field work commences. Each workpaper will be reviewed by the engagement supervisor (or manager) and comments will be provided. The auditor who prepared the workpapers will clear (address) comments accordingly. If applicable, the assigned audit manager will provide the next level of review for proficiency, due professional care and judgment of the auditor in executing the procedures. The audit manager will also review for workpaper content including documentation of sufficient and appropriate evidence and will provide review comments to be addressed and cleared. These steps should result in evidence that supports the conclusions related to the audit objectives and allows an audit trail for another auditor to be able to re-perform the procedures and reasonably draw the same conclusion(s) as those rendered by the audit/engagement team. The Quality Assurance function reviews the project using the same checklist as the external peer review team uses as a final closeout process (see [Policy No. 170.00](#), Quality Control & Assurance and [Procedure No. 270.00](#), Quality Assurance and Improvement Program).

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**RECORD RETENTION –**

The AD maintains records in electronic and hardcopy formats such as:

- Prior audit/engagement workpapers (including reports);
- Historical files for employment, performance, professional education, etc.;
- Fraud communications; and
- Professional Services contracts, communications.

**WORKPAPERS**

Workpaper documentation will be maintained for the period required by the Records Control Schedule for the Controller's Department (maintained by the Records Administrator in the City's Administrative and Regulatory Affairs Department) or to provide adequate supporting documentation for the peer review process, whichever is longer.

**AUDIT/ENGAGEMENT REPORTS (DELIVERABLES)**

The Records Control Schedule requires the AD to retain audit reports permanently.

**NOTE:** The standards set for decisions made related to the audit workpaper software are outlined in the audit software implementation documents. This includes audit/engagement set-up, document sequencing, numbering, risk assessment, auditable entities, phases, cycles, referencing, cross-referencing and findings.

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**RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE**

**GAGAS (YELLOW BOOK)**

GENERAL STANDARDS	<u>5.80</u>
FINANCIAL AUDITS	6.17 – 6.33,
ATTESTATION ENGAGEMENTS	7.33 – 7.38
PERFORMANCE AUDITS	8.03, 8.12, 8.81, 8.85, 8.132 – 8.141
ELEMENTS OF A FINDING	
CRITERIA	6.25, 7.27, 8.17, 8.124
EXAMPLES OF CRITERIA	8.18
CONDITION	6.26, 7.28, 8.125
CAUSE	6.27, 7.29, 8.126
EFFECT OR POTENTIAL EFFECT	6.28, 7.30, 8.127

**IIA STANDARDS (RED BOOK)**

- 2200 ENGAGEMENT PLANNING
- 2201 PLANNING CONSIDERATIONS
  - 2201.A1
  - 2201.C1
- 2210 ENGAGEMENT OBJECTIVES
  - 2210.A1
  - 2210.A3
- 2220 ENGAGEMENT SCOPE
- 2230 ENGAGEMENT RESOURCE ALLOCATION
- 2240 ENGAGEMENT WORK PROGRAM
  - 2240.A1
  - 2240.C1
- 2300 PERFORMING THE ENGAGEMENT
- 2310 IDENTIFYING INFORMATION
- 2320 ANALYSIS AND EVALUATION
- 2330 DOCUMENTING INFORMATION
  - 2330.A2
  - 2330.C1
- 2340 ENGAGEMENT SUPERVISION

**IIA IMPLEMENTATION GUIDANCE**

- 2200 ENGAGEMENT PLANNING
- 2201 PLANNING CONSIDERATIONS
- 2210 ENGAGEMENT OBJECTIVES
- 2220 ENGAGEMENT SCOPE
- 2230 ENGAGEMENT RESOURCE ALLOCATION
- 2240 ENGAGEMENT WORK PROGRAM
- 2300 PERFORMING THE ENGAGEMENT
- 2310 IDENTIFYING INFORMATION
- 2320 ANALYSIS AND EVALUATION
- 2330 DOCUMENTING INFORMATION
- 2340 ENGAGEMENT SUPERVISION



  
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**CHANGE HISTORY**

CHG #	DATE	SECTION	DESCRIPTION/REASON
1	3/31/2016	Approach and Methodology and Due Professional Care	To address concerns brought about in preparation for the 2014 Peer Review on the subject of "Evidence Taken as a Whole"
2	3/31/2016	Other Sections	Editorial updates and clarifications.
3	5/1/2017	Contents/Elements of a Workpaper	Minor edits to sampling methodology.
4	7/1/2019	Relevant Professional Standards	Updated to reflect updates to Professional Standards
5	7/18/2022	Audit/Engagement Evidence, Documentation Review, Record Retention	Updated to reflect actual processes and to add clarifying language regarding testimony by officials.