

## Section 5

### Elements Critical To Successful Fieldwork

Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions as required by GAGAS. Auditors must evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. In order to document compliance with GAGAS, a Review of Evidence form will be completed for each audit assignment by the Audit Manager. See the Review of Evidence form at the end of Section 5. Section 5 also covers elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.

#### Types and Tests of Evidence

Audit evidence may be physical, documentary, testimonial, or analytical.

- **Physical evidence** is obtained through direct inspection or observation of people, property, or events. It can be documented by photographs, charts, maps, physical samples, memoranda summarizing the matters inspected or observed, and other sources. The value of physical evidence is often limited by the number of observations made, the biases of the observer, and the impact of observation on the subjects.
- **Documentary evidence** is used heavily in performance audits and other projects. It consists of “created information” such as emails, letters, contracts, accounting records, invoices, correspondence, memoranda, and management information on performance. It is usually more reliable, more objective, easier to assemble, and easier to document than other kinds of evidence.
- **Testimonial evidence** is obtained through responses to inquiries, surveys, or interviews. Testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. Testimonial representations may be included in report, but must be attributed. Whenever possible, important information from interviews is corroborated with additional evidence.
- **Analytical evidence** is compiled by the staff from other types of evidence. It includes computations, comparisons, rational arguments, interpretations, and the separation of information into components. The quality of analytical evidence depends on the accuracy and reliability of the data used, the level of detail, and the logic applied in the analysis.

## Tests of Evidence

Evidence used for projects must meet tests of sufficiency, relevance, and competence.

1. **Sufficiency** means that there is enough evidence to support the findings, conclusions, and recommendations of a report and persuade a reasonable person of their validity. When appropriate, statistical methods may be used to establish sufficiency. The office working paper standards require working papers to be clear and understandable without supplementary oral explanations.
2. **Competence** means evidence is valid, reliable, and consistent with fact. In assessing the competency of evidence, auditors should consider whether the evidence is accurate, authoritative, timely, and authentic. For assessing the competence of evidence, some evidence is more competent than others:
  - a. Evidence obtained from a credible third party is more competent than that secured from the auditee.
  - b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.
  - c. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than that obtained indirectly.
  - d. Evidence from original documents is more competent evidence than from copies.
  - e. Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions.
  - f. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.
3. **Relevance** means that the information has a logical and sensible relationship to the issue being addressed. Information that is not relevant is not included in working papers as evidence. Audit staff should ensure that working papers and related information accumulated while developing a specific finding have direct bearing on the finding and related recommendations. However, staff should avoid indiscriminately accumulating papers and documents which may be related to the subject but have no potential bearing on the finding.

## Written Representation Concerning Testimonial Evidence

As indicated previously, testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. In certain situations, audit staff need to obtain written confirmation or written

representation concerning key information provided through interviews—officials providing key explanations as to why certain actions were or were not performed. Written representations ordinarily confirm oral representations given to auditors, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. To obtain written representation or confirmations, auditors should transmit a written interview summary via email to the appropriate official. The email should indicate that the official needs to review the attached document summarizing your meeting for accuracy and completeness. Indicate that the official has five days to review the summary and provide comments. If no comments are provided by the due date, indicate the official is acknowledging and agreeing to the accuracy and completeness of the written summary. Use the email time/date feature to document the email. Retain all related documents as work papers.

### **Source of data determines the approach for determining sufficiency, competence, and relevance**

- a. Data gathered by audit staff include their own observations and measurements. Among the methods for gathering this type of data are questionnaires, structured interviews, direct observations, and computations.
- b. Data gathered by the auditee can be used by audit staff as part of their evidence. Audit staff may determine the validity and reliability of the data by direct tests of the data. The amount of such tests of the data can be reduced if a test of the effectiveness of the entity's controls over the validity and reliability of the data support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support audit findings. Audit staff should document tests done regarding the reliability of the data obtained from the auditee.
- c. When the tests of data disclose errors in the data, or when audit staff are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, audit staff may find it necessary to (1) seek evidence from other sources, (2) redefine the audit's objectives to eliminate the need to use the data, or (3) use the data, but clearly indicate the data's limitations and refrain from making unwarranted conclusions or recommendations.
- d. Evidence may also include data gathered by third parties. In some cases, these data may have been audited by others and in other cases, it may not be practical to obtain evidence of the data's validity and reliability. The use of un-audited third-party data in an audit report will depend on the data's significance to the audit findings.

## **Conducting Interviews**

Before conducting an interview, the in-charge auditor and the staff auditor should prepare and review the interview questions. The following guidelines apply to the development of interview questions:

- Keep questions short, address only one topic at a time, be precise, and use language that is easily understood.
- Frame questions in non-judgmental terms. Similarly, avoid leading questions.
- Avoid asking questions for which the answer is obvious or can readily be found in available reference sources.
- Frame questions to require a narrative response, rather than a “yes” or “no” answer.
- Be mindful of the length of the questionnaire.
- Organize the questions in a logical sequence.
- Save controversial questions for the end.

Interview questions may be reviewed with the audit supervisor to ensure that these guidelines and the audit objectives are addressed. This should especially be done for such key interviews as the entrance conference. An appointment should be made to conduct the interview. By calling for an appointment, the staff auditor can introduce him or herself, clarify who will be participating in the interview, explain why the interview is requested, and state what will be covered. If possible, the interview should be held in the respondent’s office, meeting room, or in a neutral site. It is also helpful to provide the interviewee with a copy of the questions to assist in gathering materials necessary for the response. However, agency requests for copies of interview questions will not be granted, since interview questions with responses noted are confidential working papers during the conduct of the audit. The protocol for arranging interviews should be decided in the entrance conference or shortly thereafter.

## **Conducting the interview**

Sensitive interviews or interviews on detailed and complex subjects are best conducted in pairs. The in-charge auditor is primarily responsible for developing and asking the questions and writing up the interview notes afterward. The role of the other staff auditor is to listen carefully, help to record the responses, and following up on inconsistencies, ambiguities, and promising new avenues of exploration as they arise. The interjections of the other person provide welcome relief to the interview leader, who can use the break to refocus on the progress of the interview and upcoming question.

The audit team members should arrive for the interview on time. The interviewee should be thanked for taking time for the appointment. The in-charge auditor begins by introducing the members of the audit team, explaining the objectives of the audit, explaining the purpose of the audit interview, and assuring the interviewee that the results of the interview will be kept confidential. The elements of the findings planned for the audit may also be explained.

If the interviewee asks that particular remarks be kept off the record, the interviewer(s) should stop taking notes; however, keep in mind that the information then cannot be used as evidence. When asking the prepared questions, demonstrate your interest in the interviewee's statements by listening actively. It is helpful to occasionally restate or summarize your understanding of the interviewee's remarks to confirm your understanding. The secondary interviewer should ensure that the questions are fully answered. This may require several restatements of the question or of the given response. Keep note taking brief; you can elaborate on the notes after the meeting.

At the close of the interview, be sure to thank the interviewee and ask if follow up questions can be made by phone. Returning back to the office, it is useful for the in-charge auditor and team members to evaluate how well the interview went, whether all of the questions were asked and adequately responded to, and whether any new leads or issues were raised. The in-charge auditor should ensure that new leads or issues are documented in the interview notes. Interview notes should be drafted as soon as possible after the meeting while one's memory is still fresh. The draft interview notes can be reviewed for accuracy and completeness with the other member of the interview team. Since statements in an interview usually require corroboration, the in-charge auditor should also conduct appropriate research to obtain such information as soon as possible.

## **Documenting Interviews**

Auditors prepare a record of the interview (including phone) as soon after the interview as possible. The handwritten interview notes may be attached to the record if the supervisor requests and become part of the permanent working papers. Each interview record contains the following information:

- Date and place of interview.
- Time interview began and ended.
- Name, position, organization, and telephone number of interviewee, and others present at the interview.
- Name(s) of interviewer(s).
- Purpose of interview.
- In-charge's and team member's judgments, comments, and working paper cross-references where appropriate.
- When warranted, a note that the interview was orally confirmed

## **Audit Sampling**

In general, there are two types of samples: probability samples, and nonprobability samples.

A *probability sample* is selected in such a way that each item or person in the population has a known chance of being included in the sample. Thus, *every* item or person has a chance of being selected. There are

various types of probability samples. Each involves some method of selecting an item or person on a random basis. These methods are sometimes collectively referred to as *random samples*. For ease of reference and consistency, the remaining section of this manual will use the term “random sample” for any type of probability sample.

In a *nonprobability sample* not all items or persons have an equal chance of being selected. The person or item in the sample is selected based on the judgment or convenience of the person conducting the audit. Thus, these types of samples are referred to as *judgment samples* or *convenience samples*. The results of these types of samples may be biased, meaning results may not be representative of the population. All types of nonprobability samples will be called judgment samples in the remaining section of this manual.

To determine whether to use a random or a judgment sample, the in-charge needs to know how information from the sample will be used. If the audit team member needs to make a statement about the entire population of interest, then a random sample is definitely needed. If no statement or description of the population is needed, then a random or a judgment sample can be used. The in-charge should understand that the results of a judgment sample describe the sample only. Such results cannot be used to make a statement about the population. Auditing standards for performance audits also require adequate professional competency, statistical sampling skills as necessary, due professional care, and a clear explanation of the evidence gathering and analysis techniques used in the audit. Information on statistical sampling and analysis techniques is disclosed in the scope and methodology section of the audit report.

Properly constructed random samples enable the in-charge to review considerably less than the entire population of interest while allowing for a projection of sample results with given degrees of confidence to the population. In addition:

- Sample results are objective and defensible;
- An estimate of the sampling error can be determined; and
- The results can be replicated by another in-charge.

The reliability of the results can be computed and expressed in numerical terms.

## Types of random samples

There are several types of random samples. Use of a particular type of random sample may depend on the audit purpose, cost considerations, access to data, population size and complexity, etc. The following are four types of random samples:

<b>Simple random sample</b>	This is the most common type of random sample but may be more costly or less efficient than other random sample methods. All items in the population have the same chance of being included in the sample.
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<b>Systematic random sample</b>	Items or individuals in the population are arranged in some way, such as alphabetically, by date, or by some other method. A random starting point is selected, and then every <i>k</i> th member of the population is selected for the sample. This method ensures that there is an even spread of the sample across the entire population, if there is any pattern in the population.
<b>Stratified random sample</b>	The population is divided into subgroups called strata and a sample is selected from each subgroup. Either a proportional or a non-proportional sample can be selected. A proportional sample procedure requires that the number of items chosen from each stratum be in the same proportion as in the population. In a non-proportional stratified sample, the number of items chosen may be disproportionate to the population. Stratified random samples ensure that items from each subgroup are included in the sample.
<b>Cluster samples</b>	This involves dividing the population into clusters or groups, selecting a sample of those groups, and then selecting a sample of items or persons from the selected sample groups. Sampling serves several purposes in auditing. The most common purpose is to <i>provide an estimate</i> of the population. If the in-charge wishes to count the frequency of an event or an item, the in-charge is engaged in <i>attributes sampling</i> . Examples include counting errors versus non-errors in a transaction, improperly completed requisitions, and the number of clients who have received health care within the past month. With attributes sampling, the in-charge answers questions about “how many.”

Sometimes the audit team member wishes to estimate the average and/or total value of items in the population. In these cases, the in-charge may measure the dollar value of inventory, the average length of time to fill out a requisition, or the number of overtime hours in a given time period. When conducting such measurements the in-charge is engaged in *variables sampling*.

Judgment samples can be used when random samples are not necessary. For example, an in-charge may not need to mathematically project results to the population, but may simply be interested in evaluating a process or determining if all phases of the process are operational. A few items selected on a judgmental basis may be sufficient to provide feedback on whether system activities are functioning. Judgment samples may also be used to provide an indication of the need to proceed with a random sample in fieldwork.

Sampling procedures are part of the audit working papers. Regardless of the type of sample selected, in-charge should document in the working papers, the procedures used to determine the sample size, the type of sample method used, how the sample was chosen, sample results, pertinent characteristics, such as the universe of items cannot be determined, obtain from auditee assessment of potential bias or limitations pertaining to sampling, if any, and, if appropriate, how the results project to the population of interest.

## Audit Working Papers

As used in this manual, the term **working papers** refers to all of the following:

- Each document or piece of evidence.
- The summaries and analyses of these documents.
- The body of compiled evidence.

The working papers documented in MKInsight will verify that all planned steps in the project have been carried out. Working papers should:

- Contain adequate indexing and cross-referencing, schedules, and summaries.
- Be dated and initialed by the preparer.
- Be reviewed and initialed by the in-charge and supervisor or approved in MKInsight with the date of review recorded.
- Be complete and accurate to provide proper support for findings, judgments, and conclusions, and to demonstrate the nature and scope of work conducted.
- Be understandable without oral explanations, complete and yet concise. Users should be able to readily determine their purpose, data sources, the nature and scope of the work conducted, and the preparer's conclusions.
- Be as legible and neat as practicable, to maintain their worth as evidence.
- Be restricted to matters that are significant and relevant to the objectives of the assignment.

The audit team members will record working papers in MKInsight. See Section 12 – Guidance for Recording and Reviewing Audit Working Papers in MKInsight. This section provides guidance on how to utilize the electronic workpaper system – MKInsight through the various steps of the audit to ensure all key audit steps are completed, recorded and approved. The supervisor verifies that the tasks have been done by initialing and dating the working papers or electronically signing off in MKInsight. For any planned task that is not carried out, the in-charge can simply note or prepare a working paper to document and explain the reasons for not completing the task, and the supervisor initials the working paper to document approval.

Working papers also substantiate the adequacy of the methodology used in the project. Where sampling is used, for example, the working papers show how the sample was selected, the validity of the information gathered, and the reasonableness of the results.

We also document physical evidence such as photographs. Auditors corroborate the evidence, record the date it was corroborated, and add the information needed to create an audit trail. The in-charge auditor is responsible for ensuring that the working papers and project files are appropriately organized and complete.



Working papers help the in-charge auditor organize materials and prepare report outlines and reports. Working papers can also help the audit supervisor monitor the work progress and ensure that it is accurate and timely, document progress toward achieving audit objectives by showing the work done, data collected, and methodology used, and assist in planning for and carrying out subsequent audit assignments.

Finally, working papers provide evidence of audit quality: that the conclusions and judgments in an audit are based on fact and are reasonably supported by the evidence.

Audit standards stipulate that working papers should contain: (1) the audit's objectives, scope, and methodology, including sampling criteria used; (2) documentation of the work performed to support significant conclusions and judgments; and (3) evidence of supervisory review of the work performed. Working papers should contain evidence that meets the standards of sufficiency, relevance, and competence.

Auditors should document in the working papers departures from GAS requirements and the impact on the audit and auditors' conclusions.

## **Types of Working Papers**

There are two main types of working papers that are produced and maintained during the course of an audit:

1. **Interviews.** Interviews are an important source of data collection for audits. As used in this manual, interviews include both face-to-face meetings, email responses, and telephone conversations where information is obtained for the audit. The in-charge or staff auditor prepares a typed record of the face-to-face and telephone interviews as soon after the interview as possible and includes them in the working papers. Printed copies of email responses can serve as a record of an email interview. See interview section for guidance on preparing interview write-ups.
2. **Documents.** The major portion of working papers consists of documents. Primary source documents (e.g. the copy of the audited agency's actual ledgers, rules, data files; transcripts of meetings) and secondary source documents (e.g. summaries of data files, newspaper articles, annual reports, emails, lengthy source documents).

It is important to develop summaries of work performed and conclusions reached. Summaries serve three primary purposes:

1. To analyze the materials collected and summarize the work done.
2. To synthesize the evidence used to support and build the findings and provide an analysis of the materials reviewed.
3. To facilitate review of evidence supporting the draft report.

How evidence is documented in the working papers varies by the type of work performed. The main point is to describe the records examined so that an experienced auditor would be able to examine the same

records, noting, for example, file or case numbers. Copies of the documents themselves need not always be included. Working papers may include originals or copies of requests for proposals, contracts, subcontracts, amendments, change orders, drawings, blueprints, schematics, books and records, meeting minutes, reports, correspondence, memoranda, spreadsheets, payrolls, time records, time cards, checks, orders, invoices, vouchers, bills, receipts, papers, accounting records, and other materials and information, whether stored on paper or electronically, pertaining to a city program or project. If computer processed data is relied upon, its reliability must be assessed. Textbooks and other lengthy material used for general background (and not specifically quoted or referenced in the report) are not part of the final working papers. Instead, a bibliographic citation or a copy of excerpted material may be used. Care should be taken to balance the need to document the facts and project parameters required by the audit standards, versus the need to expedite such documentation efforts and deliver the audit in a timely fashion.

The production of working papers begins with the background research conducted for the risk assessment and the planning phase, continues through fieldwork, and is organized during the report preparation and project closure phases. The organization of working papers ties together all the work done for a project. Anyone reviewing the working papers should be able to grasp what was done, why it was done, and how the findings and recommendations in the audit report are justified. When consultants are engaged, working papers are also required to be prepared and organized, and access to the working papers must be provided to ensure that the consultants have gathered evidence that is relevant, sufficient, and competent to support the findings and recommendations made.

Auditors should put the following information on the first page of each working paper:

- Initials of preparer.
- Date of preparation.

For lengthy documents (journal articles, book chapters, etc.) that are used for planning or evidence, where appropriate, auditors' judgments, comments, and conclusions that may be helpful in developing findings and recommendations should be placed on the working paper in an appropriate location.

## **Securing Working Papers**

During the course of a project, the in-charge and team members are responsible for the safe custody of working papers. These materials must be protected from theft or destruction and be accessible only to authorized persons. As a general rule, working papers should not be left at the auditees' work site unless they can be secured under lock. As needed, sensitive or confidential materials may be placed in locked cabinets. To safeguard their data, auditors should back up their computer data files to a zip drive or disk as necessary.

## **Disclosing Working Papers**

In order to comply with California State Government Code Section 36525 regarding retention and disclosure of audit working papers, the Office policy will include the following:

1. Retain all audit work papers on site for at least three years.
  - Retain workpapers in City storage for at least five years to comply with City retention policy.
  - Retain financial or Federal grant related workpapers for at least seven years to comply with Federal regulations [Federal Register Volume 69 No.138].
2. Withhold from public disclosure all information related to audits that are in progress and not yet completed.
3. Withhold from public disclosure information that is collected in the course of audit work, but is not used to support a specific finding in the audit.
4. At the City Auditor's discretion, hold confidential any information from anyone cooperating with an audit who has requested, in writing, that we do so.
5. The City Auditor will make appropriate individuals and audit documentation available to other auditors or reviewers upon request, subject to applicable laws and regulations.



THE CITY OF SAN DIEGO

## Office of the City Auditor

Audit:

### Review of Evidence Form

**Purpose:** GAGAS requires auditors to obtain sufficient and appropriate evidence to provide a reasonable basis for their findings and conclusions. In assessing evidence Audit Managers should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. During this assessment, Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence.

**Procedure:** In order to document compliance with GAGAS, a Review of Evidence form will be completed for each audit assignment. The Audit Manager in charge of the assignment will review the evidence documented in the workpapers to determine if the evidence taken as a whole, including the use of testimonial evidence and appropriateness of computer-processed information, is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Based on the assessment of the evidence, apply additional procedures, redefine the audit objectives, or revise the findings and conclusions, if necessary.

**Conclusion:**

Based on the Audit Manager's review of the evidence documented in the workpapers, the evidence taken as a whole, including the use of testimonial evidence, is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions.

Printed Name / Title	Signature	Date Review Completed
		