IIA Audit Tool

Establish Objectives & Scope

Category: Professional

Purpose: How To

Gather Information → Risk Assessment → Planning → Engagement Execution → Reporting

The Institute of Internal Auditors

Overview

The processes involved in establishing objectives and the scope of an audit are critical and there are IPPF standards for each (Standard 2210 – Engagement Objectives and 2220 – Engagement Scope) that provide guidance for both assurance and consulting engagements. The information here is excerpted from "Engagement Planning: Establishing Objectives and Scope," an IIA practice guide available to IIA members with more information on the process. Internal auditors should have a complete understanding of the relevant standards before undertaking the task of establishing an audit's objectives and scope.

Forming Engagement Objectives

Once internal auditors have completed a preliminary risk assessment and identified significant risks to evaluate during an engagement, they can form the engagement objectives, according to Standard 2210 – Engagement Objectives. These should articulate what the engagement is specifically attempting to accomplish; therefore, the objectives should have a clear purpose, be concise, and be linked to the risk assessment (Standard 2210.A1).

Assurance Engagement Objectives

Internal auditors should ensure the assurance engagement objectives align with the business objectives of the area or process under review. An assurance engagement should focus on ensuring controls are in place to effectively mitigate the risks that could prevent the area or process from accomplishing its business objectives.

Internal auditors must also identify adequate criteria to evaluate the governance, risk management, and controls of the area or process under review and determine whether the business objectives and goals have been accomplished. Identifying such criteria ensures that assurance engagement objectives are measurable, practical, and aligned with the objectives of both the organization and the area or process under review.

According to Standard 2210.A3, internal auditors must use the criteria already established by management and/or the board, if such criteria exist. If no criteria are in place, internal auditors must identify appropriate criteria through discussion with management and the board. Internal auditors should also consider seeking input from subject matter experts to help develop relevant criteria.

Assurance engagement objectives must:

- Reflect the results of a preliminary assessment of risks relevant to the activity under review. (Standard 2210.A1).
- Consider the probability of significant errors, fraud, noncompliance, and other exposures (Standard 2210.A2).
- Be based on adequate criteria (Standard 2210.A3).

Examples of criteria could include:

- Existing key performance indicators.
- Targets set during strategic planning.

- The degree of compliance with area or process policies and procedures, external laws and regulations, and/or contracts.
- Industry standards or benchmarks.

To avoid misinterpretation or challenge by anyone responsible for the area or process under review, the evaluation criteria should be relevant, reliable, and documented. Adequate, appropriate criteria will provide a reference for internal auditors to evaluate evidence, understand findings, and assess the adequacy of controls in the area or process under review. The criteria, or lack thereof, should be compared to industry benchmarks, trends, and forecasts, as well as the organization's policies and procedures.

Here is an example of how assurance engagement objectives could be formulated for a review of accounts payable.

The internal audit activity will provide assurance that:

- Expenses incurred are appropriate according to the organization's expense policy.
- The expense report submission, approval, and payment process controls are effective and efficient.
- Personnel and operating expenses are appropriate and authorized.
- Expense payments are made accurately and timely.

Consulting Engagement Objectives

Because consulting services are advisory in nature, the expectations and objectives are determined either by, or in conjunction with, the engagement client. Thus, consulting engagement planning typically occurs after the engagement objectives and scope have already been determined so a preliminary risk assessment may not be required. However, Standard 2201.C1 requires internal auditors to establish an understanding with the consulting engagement client about the objectives, scope, responsibilities, and other expectations. For significant engagements, this understanding must be documented.

Additionally, internal auditors must address governance, risk management, and control processes to the extent agreed upon with the consulting engagement client (Standard 2210.C1). Although the consulting engagement purpose and expectations are directed by the engagement client, internal auditors must ensure the engagement objectives are consistent with the organization's values, strategies, and business objectives (Standard 2210.C2).

As an example, the objective for an accounts payable consulting engagement could be: "The internal audit activity will advise on the risks of outsourcing the accounts payable process to a third party."

Establishing Engagement Scope

Once the risk-based objectives have been formed, the scope of the audit engagement can be determined. Because an engagement generally cannot cover everything, internal auditors must determine what will and will not be included. The engagement scope sets the boundaries of the work and outlines what will be included in the review, which should help ensure the scope will be sufficient to achieve the engagement's objectives (Standard 2220 – Engagement Scope).

The scope may define such elements as the specific processes and/or areas, geographic locations, and time period (e.g., point in time, fiscal quarter, or calendar year) that will be covered by the engagement, given the available resources. Internal auditors must consider the breadth of the scope to ensure it enables timely identification of reliable, relevant, and useful information to accomplish the engagement objectives (Standard 2210 – Engagement Objectives, and Standard 2310 – Identifying Information),

Assurance Engagement Scope

When determining the scope of an assurance engagement, internal auditors may refer back to the engagement objectives to ensure each objective can be accomplished under the established parameters. To ensure the scope is sufficient to meet the engagement objectives and aligns with the organization's internal audit plan, internal auditors must use sound professional judgment based on relevant experience and/or supervisory assistance. They must also consider relevant systems, records, personnel, and all physical properties (Standard 2220.A1).

Internal auditors should consider how legal factors may affect the engagement scope and approach as well. For example, if the organization or area under review has nondisclosure agreements with third parties, the organization may be required to notify regulatory authorities before starting the engagement. Pending or imminent litigation and cases of noncompliance should also be considered.

For example, here are possible considerations for the scope of an accounts payable assurance engagement:

- Expenses (i.e., operational, travel, supplies, personnel, and/or corporate).
- Personnel (i.e., executive, management, all).
- Locations (i.e., corporate office, operational locations, countries).
- Timeframe (i.e., current, previous, month, quarter, year).
- Materiality (i.e., any amount or only amounts over certain authorized limits).
- Systems (i.e., only systems that process expenses or human resources systems, all systems).

Here is an example of an engagement scope for an accounts payable assurance engagement.

> The assurance engagement will cover personnel and operating expenses submitted for the 12-month period ending August 20XX and the processes for submitting, approving, and paying expense reports (including a third-party software used to submit expense reports). The engagement scope includes all personnel that utilize the third-party software to submit personnel and operational expenses. The engagement will also include a compliance review with the organization's expense policy.

If the assurance engagement scope is limited in any manner or if access to necessary sources of information is restricted, internal auditors must disclose these situations to senior management and/or the board. Such situations would be considered impairments to internal audit independence (Standard 1130 – Impairment to Independence or Objectivity).

While performing the engagement, internal auditors may obtain information that requires the engagement scope to be modified. For example, if a subsidiary is being closed and liquidated, the scope of the engagement may change to exclude the affected location and include a different subsidiary instead. Similarly, if a process has changed recently, internal auditors should consider whether the process remains in scope (i.e., should still be included in the current engagement) or whether the change warrants a separate review. In such cases, internal auditors may choose to shift the engagement focus to provide assurance over the new process, incorporate the new process into the annual internal audit plan, or perform a separate consulting engagement.

Once an assurance engagement has begun, any modifications to the work program — including any changes to the scope — must be approved (Standard 2240.A1). Additionally, if significant consulting opportunities arise during the assurance engagement, internal auditors should consider whether a separate consulting engagement is warranted. If so, a specific written understanding as to the objectives, scope, respective responsibilities, and expectations should be reached, and the results of the consulting engagement should be communicated in accordance with consulting standards (Standard 2220.A2).

Consulting Engagement Scope

The scope of a consulting engagement is designed to satisfy the expectations of the client. As Standard 2220.C1 states, the scope of consulting engagements must be sufficient to address the objectives that were agreed upon with the client. If internal auditors develop reservations about the scope during the consulting engagement, these reservations must be discussed with the engagement client so a decision can be made regarding whether to continue with the engagement. For example, internal auditors may develop reservations in situations where there is insufficient information to perform an engagement, or if they recognize that the results of an engagement are not likely to add value to the organization.

Standard 2220.C2 requires internal auditors to address controls consistent with the engagement objectives and to remain alert to significant control issues. Standard 2130.C1 requires internal auditors to incorporate knowledge of controls gained from consulting engagements into the evaluation of the organization's control processes.

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The Institute of Internal Auditors

Global Headquarters
The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA Phone:
+1-407-937-1111
Fax: +1-407-937-1101