CHAPTER 1
THE BASIC AUDIT LOGIC SEQUENCE

Audit Logic Sequence

1. Understand the auditee.
2. Set the audit objectives.
3. Determine the required evidence.
4. Decide what audit procedures to use.
5. Collect and analyze the audit evidence.
6. Develop audit findings and conclusions.
7. Report the audit.

Although individual audits differ in purpose, subject, size, and audience, all auditors may use a similar conceptual process for their various audit projects. This process is based upon logic. Logic is the discipline of reaching well-founded conclusions based upon supporting premises. The strength of a logical argument lies (a) in the strength of the links between the premises and the conclusion and (b) in the believability of the premises. The audit process is designed to ensure both a and b.

We may think of the audit process as an “audit logic sequence.” The figure introducing this chapter outlines the basic audit logic sequence. The following discussion expands each step in the sequence and provides a simple example of that step from an audit of a university bus system.

Step 1: Understand the Auditee

An auditee is the subject of an audit. The auditee may be an individual, activity, office, department, system, process, or entire organization. Any success from an audit conducted without a reasonably good understanding of the auditee is little more than accidental, despite any appearance of elaborate procedures and analysis. Such an audit is fraught with risk for everyone involved. Auditors are likely to reach the wrong conclusion, for the wrong reason, and may influence stakeholders in the audit process to make ill-advised decisions.
Auditors spend much of their initial effort on an audit getting to know the auditee’s operations. For small audits, this may take no more than a day. On large audits it may take several weeks or even months. This effort includes gaining an understanding of the auditee’s customers and their needs. It includes identifying the auditee’s products (i.e., goods and services) and getting to know why and how the auditee was organized, its mission, values, objectives, key resources, organizational structure, work processes, control systems, key internal and external relationships, the economic and legal environment in which the auditee operates, and significant recent, current, or anticipated changes affecting operations. It includes identifying critical risks, especially those related to specific concerns likely to be addressed on the audit. It includes getting to know relevant policies, plans, schedules, procedures, standards, contracts, laws, and regulations.

Chapters 2, 3, 4, and 5 provide additional information about understanding the auditee, the scope of information required, techniques that may be used to gain an understanding of the auditee, and risks with their associated controls.

Example — College Bus Service

Shortly after the beginning of the school year, the Parking and Transportation Office of Scenic Town State College had received numerous complaints about its bus system. In September, 263 complaints were received, more than 80 percent of them for being late.

The College Bus Service manager had attended a conference at the beginning of September, became ill from food poisoning there, was off work for two weeks, and then was busy with a variety of administrative tasks. She called the internal auditor, asking if he could look into the complaints. The internal auditor gave the assignment to Leslie Price. Leslie had been appointed to work with the college’s internal auditor as an audit intern. This would be Leslie’s first audit.

Leslie spent half a day in the Parking and Transportation Office finding out the following information.

**College Bus Service Customers and Their Needs.** The College Bus Service customers are almost exclusively students of Scenic Town State College. The college has an enrollment of 2,473 full-time students and 1,267 part-time students. On-campus dormitories house 844 students. Off-campus dorms and college-owned apartments located approximately one mile from campus, and college-owned married student apartments located four miles from campus, house another 500 and 240 students, with their families, respectively. The rest of the students live in and around Scenic Town.

Many students require bus service. On-campus parking for students is extremely limited, as is street-side parking near campus. Students who live in college-owned housing ride buses or bicycles, or walk to and from campus. The college provides parking for privately housed students in three parking lots, all located within a half mile of campus. Classes are scheduled five days a week to begin on the hour, every hour, from 8 a.m. to 7 p.m. Individual classes may last from 50
minutes to one hour and 50 minutes two, three, or five days a week. The last class dismisses at 8:50 p.m. daily. The college library opens at 7:30 a.m. and closes at 9 p.m. Students are going to and from campus from 7 a.m. until the last buses leave campus at 9:30 p.m. As many as 300 students may require bus service to and from campus every hour, although for some hours the numbers may be no more than 50 each way.

The Product. Buses are scheduled to run to and from each location every half-hour. Total seating capacity is 144, that is, 48 on each of three buses. Buses serve three routes and one bus runs on each route. Each bus is equipped with overhead bins for books, coats, and other gear.

Organization. The College Bus Service has been in operation more than 30 years, since off-campus housing was built in the late 1960s. It has always operated as a part of the Parking and Transportation Office, which is part of the College Student Services Department.

Mission, Values, Objectives. As a part of a college-wide program in 1994, the College Bus Service established the following mission and values statement:

The mission of the College Bus Service is to provide convenient, comfortable transportation between campus, college housing, and parking locations for students. In fulfilling this mission, the College Bus Service will give priority to the following values: safety, convenience, comfort, school spirit, friendly service, and dependability.

Specific objectives set for this year were:

- No traffic accidents.
- No equipment breakdowns.
- A 99 percent “Happy Face” rating by student customers for the year.
- Total expenditures under budget.

Organization Structure and Key Resources. Key resources for the College Bus Service include its key people, equipment and facilities, materials, money, and information. The bus service employs a manager, who reports to the Parking and Transportation Office manager. The bus service employs a student assistant to the manager, six drivers, and three part-time reserve drivers. All of these employees report directly to the College Bus Service manager. Two drivers also are responsible for the normal maintenance of the buses, such as cleaning, checking engine oil, and fueling.

The college owns six buses: three for daily service, a reserve bus for use when one of the others is in the shop for repairs or maintenance, and two buses for athletics, music programs, student field trips, and tours. The college also owns two vans for smaller group trips. The vehicles are stored in a garage on campus when not in use. The garage is maintained by College Custodial Services.
The College Bus Service contracts for shop service with a local truck dealer’s service department. Fuel is stored and dispensed on campus from a tank and pump at the garage.

The College Bus Service is funded from the college’s general funds and operates on an annual budget allotment. The bus service manager says there has not been any interruption in service due to a lack of funds since she was employed three years ago.

The key sources of information on the timing of bus service are (a) a stop schedule and (b) a daily log kept by each driver of the times each bus leaves the Student Center. Each of the three routes begins from the Student Center.

**Work Processes and Control Systems.** While the College Bus Service has a number of work processes, the ones of initial concern to Leslie were scheduling, routing, and driving. Bus schedules have remained the same for 10 years. Schedules were changed at that time to accommodate the addition of two parking lots and the addition of evening classes. The addition of the two parking lots required a route change. The completion of a new Student Center last summer prompted a change of the second and final campus stop from Chapel Circle to the main entrance of the Student Center. A first campus stop is located at the Physical Education and Recreational Center on the south end of campus. Drivers are assigned to different routes on different days to avoid boredom and so that in case of a need for substitution, all drivers know the three routes.

NOTE: Changes, such as those pointed out in the previous paragraph, usually are made to reduce some risks, but in the process create others. Auditors must be aware of this fact, which is important to this case.

The schedule constitutes the primary control governing when buses pick up passengers at the different stops. To remain on schedule, drivers are required to leave from the Student Center at precisely the hour and the half-hour. Drivers are required to log their departure times for each trip. The daily log sheets are filed in the College Bus Service office.

A bus service information line provides a telephone recording of stop schedules on the different routes. The information line also allows callers to record comments. A total of 179 of the complaints were received over the phone; the rest were made in person at the Parking and Transportation Office.

**Key Relationships.** While there are many relationships important to the operation of the College Bus Service, the key relationships with respect to on-time performance are with student passengers.

**Critical Risks.** There are two critical risks regarding the complaints of being late. First, there is the risk that a driver will not pick up a passenger, either because the driver does not stop or because the bus does not have room. Second, there is the risk that a bus may be late for an assigned stop. The drivers are directly responsible for both of these risks, except when buses are
too full to safely board additional passengers. After safety, the overriding risk of the bus service is the risk of causing students to be late either to campus or to their off-campus destinations.

**Relevant Regulations, Schedules, and Procedures.** Of the possible policies, plans, schedules, procedures, standards, laws, and regulations, the most relevant to the assigned problem were (a) the regulation restricting the maximum safe number of passengers on buses, (b) the stop schedule, and (c) the procedure for drivers to log their times of departure from the Student Center.

This information about the College Bus Service allowed the auditor to understand the details of the context in which the problem arose. It provides some clues as to the problem and indicates where detailed information may be found during the audit.

**Step 2: Set the Audit Objectives**

The second step in the audit logic sequence is to set the audit objectives. Virtually all audits have an overall purpose, such as to issue an audit opinion on a set of financial statements, to evaluate the efficiency of an auditee’s operations, to evaluate an auditee’s control systems, to evaluate the quality of products or processes, to evaluate the level of compliance with established criteria, to determine the reliability of production information, to verify the existence and determine the effect of a suspected fraud, or to evaluate the environmental effects of a particular operation. Notice that all of these purposes correspond to different kinds of audits. Purposes of audits arise out of these defining contexts.

Once the purpose of an audit is understood, the auditor sets specific objectives, the accomplishment of which achieves the defined purpose. An audit objective is the intent to determine whether information systems are reliable; information has integrity; there is compliance with applicable policies, plans, procedures, standards, etc.; resources, third parties, and the environment are safeguarded; there is economy and efficiency of operations; and organizational objectives are being achieved. Virtually all audits have multiple objectives. For example, an audit of information usually requires the auditor to examine its validity, completeness, accuracy, the differentiation and valuation of information, and presentation in any reports. Many times, audits of information also require the auditor to examine the value of the information to those using it. The auditor would set audit objectives for each of these aspects of the information being examined. These objectives may be stated as follows:

- Determine the validity of the information.
- Determine the completeness of the information.
- Determine the accuracy of the information.
- Determine if the information is properly and accurately differentiated, and valuations of any reported numbers are properly derived.
- Determine if the information is properly reported and distributed to those who need it.
- Determine the value of the information to users.
Other audit purposes may be likewise set out in a number of specific objectives. Chapter 6 discusses in detail audit objectives for each of the different kinds of audits introduced earlier in the text.

**Example — College Bus Service**

The purpose of the College Bus Service audit was given to Leslie at the time of the assignment. That was, *evaluate the performance of the bus service in an effort to determine how to resolve the high number of student complaints about its buses being late.* After learning more about the bus service in Step 1, Leslie set out two initial audit objectives:

Objective 1: Narrow the parameters of the complaints, as much as possible.

Objective 2: Determine and evaluate on-time performance of the bus service.

Leslie reasoned that the first priority was to find out if the complaints related to one or more routes and to certain times of day. By narrowing the complaints, the scope of the audit could be narrowed and completed more economically and efficiently. The next priority was to test the validity of the complaints. If buses were indeed late, then the resolution probably would be consistently on-time service. If the buses were not late, then the complaints were a symptom of some other problem. In either case, the cause of the complaints would have to be determined in order to remedy the problem. In either case, the cause probably would suggest needed changes.

**Step 3: Determine the Required Evidence**

Good evidence is the single most important factor in achieving audit objectives. In Step 3, the auditor decides what evidence would best achieve the objectives. Audit evidence supports the premises leading to the conclusions pertaining to audit objectives. Strong evidence yields strong confidence in the audit conclusions. In other words, a well-supported audit conclusion creates a persuasive audit argument. Determining what evidence is required is critical to the ultimate persuasiveness of any argument concerning an audit objective, because audit conclusions must follow logically from well-supported premises, or else fail the persuasiveness test. To be persuasive, evidence should meet three criteria:

- **It should be relevant** to the audit objective. To be relevant to the related audit objective, evidence must bear directly upon the auditor’s conclusion pertaining to that objective. If the evidence does not lead in any way to the conclusion concerning the audit objective, then that evidence is irrelevant to the objective.

- **It should be competent.** To be competent, the evidence must be believable, i.e., it must have credibility. Credibility of evidence is determined primarily by the reliability of the source. Credible evidence comes from a reliable source.
There should be sufficient evidence. Sufficient evidence suggests that there is enough of it. An auditor would decide that enough evidence has been collected when there is little, if any, chance that more evidence would change the auditor’s conclusion regarding the question being examined.

Much more is said about audit arguments and their persuasiveness in Chapters 7, 8, 9, and 10. Here, it is important to understand that enough good evidence should be obtained to persuade the auditor that the audit objective will be achieved. In this step, the ideal evidence is considered, emphasizing its relevance, assuming its reliability and sufficiency of amount. In Step 4, the auditor chooses specific audit procedures, after the required evidence has been determined.

When making audit evidence decisions, the auditor must consider (a) the importance of the audit objective, (b) the required persuasiveness of the evidence, (c) the availability and cost of the evidence, and (d) the risk of reaching faulty audit conclusions. These considerations determine what evidence to collect and how much to collect.

Tradeoffs and limitations embodied in a, b, c, and d suggest also that “best evidence” may be replaced by “best available” or “reasonably persuasive” evidence. The first consideration is the importance of the audit objective. Some audit objectives are necessary to the audit purpose. Some may be important but not necessary. Others may be merely interesting. Another factor affecting the importance of audit objectives is the importance of the overall purpose of an audit. The more important the audit objective, the more careful the auditor must be in reaching any conclusions pertaining to the audit objective. Such a conclusion would be called an “audit conclusion.”

The second factor is the persuasiveness of the audit evidence. The more persuasive the evidence, the more confidence the auditor will have in these conclusions. Usually, several different kinds of evidence could be relevant to an audit objective, some more persuasive, and therefore more desirable, than others.

Availability and cost of evidence constitute the third consideration. Regardless of how desirable some evidence might be, it may be unavailable. Even if available, it may not be readily available, or it may be comparatively expensive to obtain.

Finally, the risk of reaching a faulty audit conclusion usually is a function of (1) the relevance of the audit objective to the audit purpose and (2) the quality of evidence supporting the necessary and important audit objectives. There is likely to be relatively high audit risk associated with audits where auditors are looking in the wrong directions, i.e., pursuing the wrong objectives, and where auditors collect relatively weak evidence to support critical conclusions. Auditors, then, attribute higher risk to more important audit objectives, requiring more persuasive evidence.
Usually, more persuasive evidence costs more in terms of time and/or technology; so, the decision of what audit procedures to use is not a trivial one, even though it usually is not difficult. The following table breaks out some general guidelines related to the four primary considerations affecting the selection of audit procedures.

<table>
<thead>
<tr>
<th>Importance of objective to purpose:</th>
<th>Necessary</th>
<th>Important</th>
<th>Interesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit risk:</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Required persuasiveness:</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Typical cost:</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
</tbody>
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### Step 4: Decide What Audit Procedures to Use

Once the auditor determines what evidence is required and understands the auditee well enough to know where that evidence is likely to be located, deciding what audit procedures to use is a relatively simple matter of common sense. When a person has the required evidence, for example, the usual procedure is to ask the person for the information either in person, by telephone, or in writing. If the evidence is contained in a document, the usual audit procedure is to read the document. If the evidence is contained in an activity, the obvious audit procedure is to observe the activity. Although Chapter 11 discusses a number of possible audit procedures, some of which have some specific requirements, the selection of what procedures to use generally is not difficult. The procedures that are chosen are written on a schedule called an “audit program,” which also is discussed in Chapter 11.

### Example — College Bus Service

Consider the required evidence and selection of audit procedures for each of the auditor’s previously set audit objectives.

#### Audit Objective 1

_Narrow the parameters of the complaints, as much as possible._

The main value of this audit objective is to make the audit more convenient and efficient. It is not necessary to the purpose of the audit, since a broader examination would likely yield the same conclusions, even though with more work. This objective would be only “interesting” to the audit outcome, although in terms of maximizing Leslie’s efficiency and the overall productivity of the internal audit function, it may be upgraded to “important.” So, the required persuasiveness of the evidence and likely cost of the evidence in terms of comparative time spent on the objective could be as much as “medium.” Consequently, Leslie selected more than minimal and less than conclusive evidence on two issues:
Issue 1: The routes students were criticizing.

**Required evidence**: From the 263 documented complaints for September, filed in the College Bus Service office, Leslie decided that a random sample of 50 complaints of late arrivals, identifying the route in question, would be adequate.

**Audit procedure**: Select a random sample of 50 complaints from the office files and tally the complaints for each route.

Issue 2: The dates and times the complaining students were riding the buses in question.

**Required evidence**: The dates and times from the 50 randomly sampled complaint forms.

**Audit procedure**: Note on the tally sheets the dates and times identified when the late arrivals occurred. Analyze the data for patterns indicating times with higher concentrations of late arrivals.

Since later audit objectives require contacting at least some of the complainants, the auditor should identify on the tally sheet each of the 50 students corresponding to the sampled complaint forms, with the student’s contact address and telephone number.

Notice that both of these procedures could be accomplished with a single source of information — the complaint forms.

**Audit Objective 2**

**Determine and evaluate the on-time performance of the questionable routes.**

This audit objective is necessary to the purpose of the audit, since it would be impossible to resolve students’ complaints of late arrivals by the College Bus Service without first determining whether buses actually had been arriving late and evaluating why the buses had been late, or if not late, why students would think buses had been late. The necessity of this audit objective suggested the need for highly persuasive evidence.

Before finally deciding to collect highly persuasive evidence, and therefore more expensive evidence, the college’s internal auditor and Leslie had to consider the overall importance of the audit purpose, given other internal audit demands. Because many students are essentially dependent upon the bus service for transportation to and from campus in all seasons of the year, good bus service is necessary to the college’s operation. The relative importance of the audit, then, also indicated the need for highly persuasive evidence.
Leslie identified 11, and possibly 12, issues that needed to be addressed to achieve the second audit objective. Each issue is listed below. In some cases the required evidence and audit procedures cover more than one issue at a time. In these cases, the issues are listed in sequence, and the required evidence and audit procedures follow immediately and are labeled to identify the issues in question.

**Issue 1: The scheduled times of arrival at the different stops on the route(s) in question.**

**Required evidence:** Scheduled arrival times at the different bus stops from an approved bus schedule in force at the time of the complaints.

**Audit procedure:** Request a copy of an approved bus schedule from the College Bus Service office staff. Assure that this bus schedule was in force during September, and if changes in the times of scheduled stops occurred during September, request a copy of the schedules after each change, with the dates of the changes noted on the additional schedules.

**Issue 2: The actual times of arrival at the different stops on the bus runs under complaint.**

**Required evidence:** Ideally, Leslie needed the recorded times of arrival at the different bus stops. In Step 1, understanding the auditee, Leslie learned that the only record kept of actual bus times was times of departure from the Student Center. Therefore, there was no record of arrival times at the different stops. The only evidence of scheduled bus times subject to complaint was the times of departure from the Student Center.

The auditor could test to see if buses are arriving at bus stops on schedule currently. Although this evidence would not indicate arrival times previously, it would suggest actual intervals between stops on the current routes. If the routes are the same as before, and there are no significant route, roadway, traffic, student volume, or weather differences, then the auditor can estimate the actual arrival times from the Student Center departure times.

**Audit procedure:** Request a copy of the actual departure times for the different bus routes from the Student Center on the days identified in the 50 sampled complaints.

Also, posing as a student without alerting the drivers that an audit is being conducted, ride the routes students complained about on the days and at the times given in the complaints, checking times of departure from the Student Center and the times of arrival at each of the stops. When boarding the bus, ask each driver what time it is. For the Student Center and each stop, record the times as (a) times of arrival and (b) times from the departure. If there is a difference between your watch and the bus driver’s watch, record the difference and the effect it would have on the times of departure and arrival.
Issue 3: Differences between the scheduled and actual arrival times.

**Required evidence:** A direct comparison of scheduled and actual arrival times.

**Audit procedure:** Compare the departure times from the Student Center recorded by the drivers on the days identified in the 50 sampled complaints with the scheduled departure times.

On the day following the rides, after drivers have submitted their bus logs, compare the times of departure from the Student Center and the arrival times at each stop recorded by the bus drivers with those recorded by the auditor, for integrity of the recorded times and for consistency with the approved schedules.

**NOTE:** While this procedure does not provide the most reliable evidence of when the buses actually made their stops on the days identified in the complaints, it does approximate the relevant conditions. If the conditions are similar, the procedure provides at least good evidence, if not the most reliable.

To further evaluate the on-time performance, if indeed the buses were late, Leslie would need to determine how bad the effects of the late arrivals and departures were, and what caused the problem. To evaluate the consequences of the problem, the auditor needed to know:

**Issue 4: How the problem affected students, and perhaps others.**

**Required evidence:** Information from the affected students regarding (a) how late they felt the bus service had made them and (b) what effect it had caused. Information should be gathered from enough students so that a good representation of the range and severity of the problem is understood. This probably would require information from at least 25 students, and maybe as many as 50.

**Audit procedures:** Interview between 25 and 50 students who had filed complaints about late bus service, asking the questions related to a and b above. The students’ names and telephone numbers are on the complaint forms. The interviews may be conducted over the telephone.

If the buses were late, Leslie also needed to know what had caused the problem. There was a limited number of possibilities, including the drivers, bus operation, bus capacity, routes and scheduling, stop locations, and loading and unloading processes. There might be others, but Leslie decided to begin with evidence about these. All of the potential causes are relevant to the evaluation, since identification of any causes of off-schedule performance is crucial to resolving
the problem. The different items of evidence about causes, however, have different sources and required amounts to be persuasive. The key causal issues include items 5-11 below:

**Issue 5:** The drivers’ compliance with the prescribed routines.
**Issue 6:** Possible students bypassed by drivers.
**Issue 7:** Students who might have been left because buses were full.
**Issue 8:** Unrealistic scheduled stop times on the selected routes.
**Issue 9:** The inconvenience of bus stop locations.
**Issue 10:** Possible delays in loading and unloading students.
**Issue 11:** Equipment breakdowns and service stoppages.

**Required evidence for items 5-11:** Because the complaining students were present at the time of the problems and already had shown interest, they might have some opinions about why the buses were late. The opinions might provide valuable evidence and insight into causes of the problem. Because the students, however, were not likely to be experts about such causes and because they also were likely to be strongly biased in their opinions, Leslie would also have to investigate other sources for possible causes.

Bus drivers also were likely to have opinions about possible causes of the problem of late arrivals at bus stops. Their opinions also were likely to be biased.

Direct evidence of bus service performance would provide the best information about why the buses were late. It was impossible for Leslie to return to the times in question. By duplicating the conditions, Leslie might observe the causes. This evidence provides a reasonable alternative to direct observations at the times specified in the complaints.

**Audit procedures:** Leslie decided that the telephone interviews would cover possible causes of the problems identified in the complaints. Students would be asked about the specific possible causes identified in issues 5-11, and a general question would be included about other causes the students might identify.

Each bus driver on duty at the times identified in the complaints would be interviewed about (a) the accuracy of the complaints, and if the drivers agree the buses either did arrive or could have arrived late and (b) possible causes of late arrivals at the assigned stops. Each of the above possible causes would be specifically identified for comment, and a general question would be included for other possible causes.
If the buses were on time, however, Leslie would need to know:

**Issue 12: Why students felt the buses were late, when in fact they had not been.**

NOTE: The students already had lodged complaints that the buses were late. The relevant information here is why they thought the buses were late. This information is covered in the required evidence and interview procedures discussed above.

Although other evidence may be required, Leslie decided that the above evidence and procedures probably would identify the problem and offer significant clues for its resolution.

In summary, the audit procedures include:

**Audit procedure 1:** Choose a sample of 50 complaint forms.

(a) Note on a tally sheet the dates and times identified as to when the 50 sampled late arrivals occurred. Analyze the data for patterns indicating times with higher concentrations of late arrivals.

(b) Identify on the tally sheet each of the 50 students submitting the sampled complaint, with the student’s address and telephone number.

**Audit procedure 2:** Request a copy of the approved bus schedule. Request copies of the logged departure times on the days identified in the 50 complaints. Compare the scheduled departure times with the logged departure times.

**Audit procedure 3:** Interview, by telephone, a sample of 25 students who made complaints, asking them for the following information:

(a) How late the late arrival of the bus had made them.
(b) What effect the late arrival had caused.
(c) What they felt had caused the bus to be late.

If reasonably clear patterns and consensus do not emerge from the first 25 interviews, another 25 may be chosen.

**Audit procedure 4:** Without alerting the drivers, ride the routes complained about in the 50 sampled complaint forms on the days of the week and at the times given in the complaints.

(a) While riding, check the times of arrival at each of the stops. Record the times as (1) times of arrival and (2) times of departure. On the following day, after bus logs have been turned into the bus service office, compare the times of departure from the Student Center recorded by the bus drivers with those recorded by the auditor for consistency with the approved schedule.
While riding the bus, also observe for the following:

(b) Drivers’ compliance with prescribed routines — unauthorized stops, extended breaks, detours, etc.
   NOTE: The auditor will need to request a copy of such prescribed routines from the College Bus Service Manager.
(c) Bypassed students at the stops.
(d) Passengers left because of inadequate space.
(e) Unrealistic arrival times for scheduled stops.
(f) Inconvenient stop locations.
(g) Delays in loading and unloading passengers.

Audit procedure 5: Interview the drivers of the buses for their observations on:

(a) Whether their bus runs were running late, or if not late, whether they were taking longer than last year.
(b) Whether students had complained to them of being late.
(c) What factors might be causing any delays.
(d) If not late, why students might be complaining of late bus runs.

Leslie decided to perform procedures 1 and 2 first, since the complaint forms, bus schedule, and log sheets could be requested at the same time, thereby inconveniencing office staff as little as possible. Procedure 3 would provide valuable information about perceived causes of the late arrivals before making the direct observations. For example, Leslie might have found that foul weather was perceived to be more of a factor than time of day. In that case, the direct observation would have needed to be done in weather corresponding to the times identified in the complaints (although this was not the case). The fourth procedure was to ride the buses. The final procedure was to interview the drivers.

Setting the audit objectives, determining the required evidence, and deciding upon the audit procedures took the second half of the first day of the audit.

Step 5: Collect and Analyze Audit Evidence

This step is where the audit work is done, i.e., the audit procedures are carried out.

Example — College Bus Service

Leslie performed the audit procedures without complication. Two additional procedures were added during the audit work. Leslie rode buses at 10:30 a.m. and 3:00 p.m. for comparison to the driving times at the peak traffic hours. Leslie also walked to different buildings on campus to determine how long students had to walk from the Student Center bus stop to classes.
Procedures 1 and 2 required the first half of the second day of the audit. Procedure 3 required 2½ days. Procedures 4, 5, and the two additional procedures required another half day. At this point, Leslie had spent 4½ days on the audit, most of the time being required to interview students.

**Step 6: Develop Audit Findings and Conclusions**

Each audit procedure yields one or more audit findings. An audit finding consists of (a) the **issue** or question being examined, (b) **criteria** indicating what the auditor should find in ideal circumstances, (c) the actual **conditions** as the auditor found them, (d) **effects** of the condition, and (e) **causes** of the conditions and, consequently, the effects, especially important when the effects are harmful. A natural extension of audit findings is **audit conclusions**. There will be at least one audit conclusion for each audit objective. In many situations the findings and conclusions result in auditor **recommendations** to organizational management, especially when conditions are not as they are supposed to be, when there is a significant adverse effect, and when auditors have identified the causes.

Without all five elements (a-e), an audit finding is incomplete. Without knowing the issue in question, the auditor has no frame of reference, e.g., criteria for what? Without criteria, there would be no reference point by which to evaluate the conditions found. Without knowing the effects of the actual conditions, the question could be raised, so what? If the auditor is unable to discover the causes of the relevant conditions and effects, any recommended corrective action could promise no better results than trial and error.

**Example — College Bus Service**

The audit procedures provided Leslie with a variety of evidence pertaining to the audit objectives. Considering this evidence, Leslie developed the following audit findings related to each audit objective:

**Audit Objective 1**

**Narrow the parameters of the complaints.**

**Issue(s):** Which routes? Specific nature of complaints?

**Criteria:** Ideally, no route should be late at any assigned stop.

**Condition:** All of the bus logs examined were consistent, within one minute, with their scheduled departures from the Student Center.

Two routes (Blue Route and White Route) were criticized much more frequently than the third (Gray Route). Of the 50 complaints investigated, 26 were for the Blue Route, to the married student housing complex, and 19 were for the White Route, to the off-campus
dormitories and single student apartments and to one parking lot. Five of the complaints were for the Gray Route, to the other two parking lots and to on-campus housing.

The complaints were broken down as to time of day as follows:

<table>
<thead>
<tr>
<th>Time of Day</th>
<th>Number</th>
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<tbody>
<tr>
<td>Before 8 a.m.</td>
<td>20</td>
</tr>
<tr>
<td>9:00-10:00 a.m.</td>
<td>10</td>
</tr>
<tr>
<td>5:00-6:00 p.m.</td>
<td>15</td>
</tr>
<tr>
<td>6:00-7:00 p.m.</td>
<td>5</td>
</tr>
</tbody>
</table>

**Effects:** Of the 25 interviews conducted, 15 students estimated they had been 10 minutes late to class, four students estimated they had been between five and 15 minutes late to work, two estimated they had been five and 10 minutes late, respectively, to pick up their children at baby sitters, one had almost missed a flight home for a family wedding, two could not estimate how late they had been or exactly where they were going at the time, but insisted if there had not been a problem they would not have complained.

**Cause:** All confirmed that the primary reason they had been late was due to the late arrival of their buses to or from campus.

**Conclusion:** The routes of primary concern were the Blue and White routes at peak traffic times, before 10 a.m. and between 5 p.m. and 7 p.m.

**Audit Objective 2**

Determine and evaluate the on-time performance of the Blue and White routes.

**Issue:** Were the buses late?

**Criteria:** Buses should arrive according to the scheduled times.

**Condition:** The bus ride procedure revealed that although all observed routes indeed left from the Student Center at the scheduled times, all arrived between five and 10 minutes late upon their return. None of the observed routes had successfully met the scheduled stops.

**Effects:** Although the buses arrive back at the Student Center before five minutes until the next scheduled departure, thus leaving time for waiting students to board for departure, some students with classes no more than 100 yards from the bus stop could be late to class. Leslie had walked to different buildings from the bus stop to test how late students might be and estimated some students could be as late as 10 minutes.

So many students being late would have a tendency to disrupt the beginning of classes, affecting many more than just the student passengers. Leslie was surprised more students, instructors, and administrators had not made complaints as well.
Causes: Several of the interviewed students observed that the bus routes seemed longer than the schedule called for. Several others had observed that the walk to classes was much farther than last year, when they had unloaded at the more centrally located Chapel Circle. The new Student Center was located on the north end of campus.

By moving the bus stop from Chapel Circle to the Student Center, the bus service had increased the walking time of many students by up to seven minutes, and also the driving time by approximately three minutes.

The bus routes had been designed with an approximately eight-minute margin slack. The 10-minute increase in time caused by the relocation of the bus stop would have caused problems for a far more limited number of students had there not been another factor delaying both the Blue and White routes. Leslie had learned in the interviews with the drivers that during the month of September, the Scenic Town Streets Department had closed off one lane of a one-mile portion of street used by both of the bus routes. Drivers on those routes had decided together to detour around the street repair, which added another five minutes to each run — approximately 2½ minutes going out and another 2½ minutes on the return trip. Since the street work was temporary, no permanent route change was necessary, and the drivers had informally decided on the temporary route change among themselves. The street returned to normal service on October 4.

A final factor affected the time necessary for the bus runs — traffic. A new subdivision was being developed north of the campus, and traffic had increased substantially compared to last year. Leslie had ridden the buses during the peak driving hours and, for comparison, at 10:30 a.m. and 3:00 p.m. Routes at both times arrived back at campus no more than five minutes off schedule. At peak traffic times, however, runs took approximately four minutes longer.

All three of the factors had combined in September to cause college buses to run substantially behind schedule at the hours in question.

Conclusion: College Bus Service Blue and White routes had run significantly off schedule at the times identified in complaints.

Leslie discussed these findings with the supervising internal auditor, who agreed with Leslie that letters of apology to the complaining students would probably help soothe some of the ill will that had developed and that some route and schedule changes might be appropriate. The internal auditor cautioned Leslie, however, that the recommendations should be stated as possible resolutions, leaving other possible solutions open to the College Bus Service manager. The internal auditor also suggested that the College Bus Service manager contact the school newspaper about a possible article informing students of changes to improve bus service.

Preparation of the findings and conclusions took another half day.
Step 7: Prepare the Audit Report

Audit reports may be prepared in a variety of ways. Regardless of how a report is prepared, it should reflect several critical characteristics:

- **Usefulness.** Audit reports should be useful to those people relying on them. If an audit report has little bearing on what those people do, then it is of marginal usefulness at best.
- **Sound logic.** Audit reports should reflect good reasoning by the auditors in reaching findings, conclusions, and recommendations.
- **Clear communication.** Information in an audit report should be easy to understand, with little likelihood of being misunderstood.
- **Fairness.** An audit report is likely to be fair if it accurately reflects the nature, cause, and seriousness of the matters being reported, without distorting either the “bad” or the “good.” There should be appropriate perspective, balance, and context in which to understand the audit findings, conclusions, and recommendations.
- **Good manners.** There is virtually never justification for auditors to be rude or abusive. They are far more likely to properly influence other people and organizations with courtesy and proper professional etiquette.

Usefulness is necessary to be taken seriously. Sound logic is necessary for the respect of those receiving it. Clear communication helps avoid misunderstandings. Fairness and good manners promote good will and a positive response from those receiving the report.

An audit report likely will be delivered in two formats — by personal presentation and in writing. The above characteristics are important to both forms of delivery.

Also, distribution of the audit report will differ, depending upon for whom the audit is done, its purpose, and legal considerations, such as public access. All audit reports are distributed to those requesting or contracting the audits. Other people and groups may or may not receive copies of audit reports. Chapter 12 discusses in detail the preparation and distribution of audit reports.

**Example — College Bus Service**

Because of the limited nature of the audit and its restricted interest to the college, the internal auditor decided to limit the distribution of the audit report to the College Bus Service manager and the manager of the Parking and Transportation Office. A brief summary of the report would be included in an activity report, along with summaries of other audits completed during the year, at the end of the year to the College’s Executive Council and Board of Regents.
Leslie met and discussed the audit with the manager of the College Bus Service, then drafted the following audit report in the form of an interoffice memorandum, which was read and approved by the internal auditor and delivered:

MEMORANDUM

Date: October 15, 20XX
To: Connie McDonald, Manager, College Bus Service
cc: Warren Streate, Manager, College Parking and Transportation Office
From: Leslie Price, Audit Intern, Audit Office
Subject: Audit of student complaints of late bus service in September

The Audit Office appreciates the opportunity to assist the College Bus Service in examining questions raised by student complaints in September. We hope the following report is helpful. If you have questions or concerns, please call us.

The Audit Office conducted an audit of student complaints of late bus service in September during the week of October 6-10. The audit was conducted at your request and followed college policy and standards prescribed by The Institute of Internal Auditors.

Primary Finding

The primary issues were whether buses had caused a significant number of student passengers to be late to destinations on and off campus, and if so, what had caused the problem.

The audit revealed that late arrivals at scheduled bus stops on the Blue and White routes did cause many students to be up to 15 minutes late to various destinations during the month of September. The late arrivals were measured by the latest currently approved bus stop schedule published by the College Bus Service. The problem occurred at peak traffic periods, i.e., before 9 a.m. and between 5 p.m. and 7 p.m. on various days of the week. The problem affected not only the student passengers, but also others, such as instructors whose classes were interrupted by the late arrival of students, off-campus employers, and baby sitters tending children for Scenic View State College students. The problem is more serious since most students are dependent upon the College Bus Service for transportation to and from campus.

Evidence indicated that a combination of three primary factors caused the buses to be off schedule. These causes included the following:

- The decision to move the final bus stop from the centrally located Chapel Circle to the front entrance of the new Student Center located at the north end of campus added three minutes to the driving time and several minutes walking time for many students whose on-campus destinations were located much farther from the stop than previously.
• A Scenic Town repair project on a mile-long stretch of Willow Street between Hardin Avenue and Grant Boulevard caused drivers on both the Blue and White routes to detour around the construction, adding approximately five minutes to their runs. Construction was completed on October 4, and Willow Street now is open to all traffic. Drivers on both the Blue and White routes have returned to their normal routes along that street, eliminating the temporary five-minute driving time added by the detour.

• The new Cougar Lake Residential Park development north of campus has caused an increase in traffic during peak morning and afternoon driving hours. We observed an addition of approximately four minutes of driving time during peak traffic hours before 9 a.m. and after 5 p.m. As the development is completed, the impact likely will be greater.

Potential Resolution

The College Bus Service manager is in the best position to lead the resolution of the problem, if action is necessary. As a part of this decision process, the following suggestions might be considered:

1. Written notes of apology to complaining students who were inconvenienced by the late buses.

2. Notification of the student newspaper of changes to improve the bus service.

3. Either returning the last stop to the Chapel Circle or adding a Chapel Circle stop to the routes. This change would reduce at least some students’ riding time by three minutes and discharge them up to five minutes closer to their classes.

4. As the Cougar Lake development is completed, the additional traffic could cause greater congestion and driving delays. At some point, the College Bus Service may want to consider replacing each of the larger buses on at least the two routes with two smaller buses and scheduling stops every 15 minutes rather than every half-hour.

Summary

This chapter presents and illustrates an audit logic sequence common to all audits. This sequence provides the structure for most of the rest of this course. The audit logic sequence includes the seven steps outlined in the illustration opening the chapter.
Study Questions

1. List the steps in the basic audit logic sequence.

2. What makes a strong argument? How does an audit build a strong argument? How does evidence help build a strong audit argument?

3. Discuss what an auditor must know to understand the auditee. What is an auditee?

4. Distinguish between the purpose of an audit and audit objectives.

5. What makes evidence persuasive?

6. How does the auditor decide what audit procedures to use?

7. Why do you think Leslie Price added the two audit procedures in Step 5 — collecting and analyzing audit evidence? Why didn’t Leslie plan these procedures earlier?

8. Name the five elements making up an audit finding.

9. What characteristics are desirable for any audit report?

10. The text said auditors may make recommendations to management. Leslie offered what he called “Potential Resolutions” in his report. This phrase sounds less forceful than “recommendations.” Why would Leslie use the softer tone?
Illustrative Case

Suppose the purpose of an audit were to evaluate the operations and performance of Wellerford Co. production plants. For each of the following scenarios from the audit, please identify which step in the audit logic sequence would most likely be associated with the statement or paragraph.

1. Determine if the production plant is producing products that meet customer needs.

2. The auditee owns three plants, one each in Chesterfield, Wayne Town, and Stubbs.

3. A primary concern is why orders are not meeting customer specifications. The detailed specifications of each order should be recorded on a job sheet, which is sent to the production plant. Only half of the orders examined had job sheets containing customer specifications. Almost 10 percent of the orders over a three-month period were returned for rework, and more than five percent were returned for refund and had to be scrapped. The cost of the rework and scrapped jobs totaled $236,000 over the three-month period in one plant alone. Upon investigation, it was discovered that none of the customer service agents had been trained to record customer specifications, and plant workers had been told by their supervisors to produce standard product where specifications were missing.

4. Select and examine 100 job sheets for customer specifications.

5. To determine if customer needs are being met, it would be important to know what specifications customers have requested.

6. After examining five shipments to one customer, all returned for rework, the auditors could not find the customer purchase orders. They telephoned the customer to find out if purchase orders had been prepared and whether specifications had been sent with the orders.

7. Recommendations. Train all order clerks in the proper preparation of job sheets and filing of customer purchase orders. Require production teams to refuse production on all job sheets that are missing customer specifications.
Model Solution — Illustrative Case

The purpose of this case is to practice identifying the parts of the audit logic sequence. Each of the seven items is likely to be included as a part of one of the seven steps in the sequence.

1. Step 2. Determining if products meet customer needs is an audit objective.
2. Step 1. The location of the plants would be a part of understanding the auditee.
3. Step 6. You will notice the various elements of an audit finding contained in this paragraph.
5. Step 3. Specifying what information (i.e., evidence) is required to meet an audit objective occurs in this step.
6. Step 5. This sentence describes specific work the auditors did to gather and analyze the evidence.
7. Step 7. Recommendations are contained in the audit report.

Homework Exercise — Mountain Beauty Cosmetics

Charles Hess was conducting an audit of Mountain Beauty Cosmetics, a manufacturer of facial and body cosmetics. The company’s headquarters are located in the Canadian Rockies, with production plants in Alberta, Canada, and Colorado. During the audit, Charles collected a variety of evidence, including the evidence identified in the first list below using the procedures identified in the second list.

Required:

Match the number corresponding to the evidence with the letter corresponding with the procedure that Charles probably used to collect it. Some of the procedures may be used more than once.

Evidence:

1. Interest rate on a loan from a bank.
2. The names of employees with Latin names.
3. The amount of arsenic in effluent discharged from the Alberta production plant.
4. A policy requiring a supervisor’s signature to fill the orders of customers with histories of poor credit.
5. Verification that supervisors approved orders of customers with histories of poor credit.
6. The amount of inventory of facial cream stored in a warehouse.
7. The flow of work through a production process.
8. The amount of interest due on a loan.
9. The location of a safe.
10. The sum of the total payment in checks to employees for the month of March. The checks are listed in order of employee number, with the total, on the company’s payroll register.

Procedures:

a. Ask.
b. Read the relevant document(s).
c. Count.
d. Inspect a sample (of documents).
e. Calculate.
f. Observe.
g. Foot (i.e., add a column of figures).
h. Scan the relevant document(s).

Homework Exercise — Badger Inns, Inc.

Olga Magdalena, on her first audit for Ratliff, Reding, and Associates, entered Ryan Poulson’s office. He was the president of Badger Inns, Inc. He invited her to sit down, and as she was about to begin her preliminary interview for the audit, he interrupted: “Mr. Reding told me you would be coming and that you would be working on this audit for perhaps five or six weeks. I don’t understand. How can it possibly take five or six weeks for you to check whether we are making enough money to pay off a loan? All you have to do is add up a few numbers. We just need an audit of our financial statements for a bank loan. We are not going to court.”

Required:

How would you answer Mr. Poulson?

Homework Exercise — Poisson Industries

Following is an audit finding prepared for a quality audit of Poisson Industries, an import-export company specializing in ceramics. In addition to buying ceramic products from various countries around the world, Poisson has its own manufacturing plant in southern Vermont. The audit objective for this finding was:

Determine whether the plant is meeting individual customer specifications on special orders.
Audit Finding

**Issue.** The degree to which production is meeting individual customer specifications on special (i.e., customized) orders.

**Criteria.** Specification sheets are prepared for each special order, itemizing how each product, and sometimes unit of product, should be customized. These sheets set out the criteria required for each order. In addition, the company has set its own production criterion of no more than two percent defective units for special orders.

**Condition.** Defective production rates for special orders for the six-month period between January and June was five percent, and as it turned out, the same as for the plant’s regular production.

**Effects.** Defective units cannot be reworked, so must either be scrapped or, where possible, sold at severely reduced prices. The total cost to the plant for defective units is an estimated $320,000 in the production of special orders during the January-June time period. The maximum acceptable cost for defective units (at a two percent rate of defective production) from these special orders was an estimated $128,000. The audit did not examine the effect of costs associated with defective units produced during regular production runs, but since regular orders constitute almost 10 times the volume of special orders, a five percent defect rate would have a significant effect on profitability.

**Causes.** The audit revealed two probable causes of the high defect rate, one apparently far less serious than the other. First, the plant has difficulty acquiring the special clays and glazing materials for many special orders and has to approximate the specified effects with alternative, often inferior, materials. Second, the throwing wheels, except for those in the new machine purchased two years ago, are old with a much higher wobble factor than new machines. Considering the age of the wheels, a five percent defect rate probably is reasonable. Significant improvement would require modification to the equipment.

The high wobble factor appears to be much more serious than the plant’s inability to acquire the special clays and glazing materials. If the special materials were the major cause, there likely would be a significant difference between the defect rates of the special orders compared to regular production. The rates of defective production are almost identical. The single most serious cause appears to be the old throwing wheels, since they are used for both regular and customized production runs.

**Required:**

Write the conclusion that the auditors are likely to reach with respect to the audit objective.
Homework Exercise — Maddie’s Samplers

Cache Samplers Co. is a small company founded by Madison (“Maddie”) Gutierrez in 1993. Maddie contracts with supermarkets to provide ladies who prepare and serve food samples for special promotions. The women all wear flowered aprons with “Maddie’s Samplers” embroidered across the front, and they each wear a little white chef’s hat. Gil Hutchinson has been asked by one store to audit the samplers’ performance. Following is a description of Gil’s audit.

Gil visited the store and counted the number of ladies working as Maddie’s Samplers. He identified what food each was serving and kept track of how many store customers sampled each food being served. He kept track by counting the little cups at the beginning of the day and the number of cups at the end of the day at each service station. By subtracting the end number from the beginning number, he was able to determine how many cups had been used. At the end of the day, Gil recorded how many packages of foods being promoted had been sold during the day. The comparison between how many customers had been served and how many packages of food had been sold would provide a measure of how successful the promotion was, Gil argued.

The following day Gil wrote a report to the store management, outlining the results of the audit. Maddie’s Samplers served at four stations in the store, offering a different food at each station. At Station 1, there were 358 customers served, and 479 packages of that food had been sold during the day. At Station 4, there were 185 customers served, and 47 packages of the food had been sold. Gil concluded that Maddie’s Samplers were a very pleasant group of ladies providing a wonderful service to the store and the community. Gil personally delivered the report and a bill for $560 to the store and thanked store management for the opportunity to perform the audit.

Required:

1. What steps in the audit logic sequence seem to have been performed on this audit? What steps seem to have been left out? How would this analysis affect your confidence in the audit that was done?

2. Evaluate the results of Gil’s audit and his conclusion.

Homework Exercise — Geoff’s Co.

Auditors were examining Geoff’s Co.’s financial management system. Please examine each of the following numbered paragraphs and identify which step of the audit logic sequence would most likely be associated with the information in the paragraph. Explain your selection, being sure to identify the clues in each paragraph that led to your decision.

1. The auditor had requested a year-end bank statement from each of the company’s three banks. Two of the bank statements were sent the following week, but by the fourth week after the request, the third bank still had not sent the statement. The auditor was unable to deter-
mine the correct cash balance without all of the bank statements. The auditor telephoned the bank to ask about the delay and a bank manager said the letter requesting the year-end statement must have been lost. The auditor received the statement three days later.

2. After reconciling all of the company’s bank statements and performing what is called a “proof of cash,” the auditor determined that the balance in the company’s cash account, in its general ledger, was materially correct.

3. The company had used five banks during the year. In an effort to consolidate its financial management, the treasurer had closed two of the accounts. Although First Federal Bank in Milwaukee was the farthest from the company’s operations, the treasurer kept that account open to handle all foreign cash transactions. Neither of the other two banks, Valley State Bank and Plains Community Bank, had the facilities to handle international currency transactions.

4. Request bank statements from the company’s three banks. Reconcile the statements with the general ledger cash balance.

5. Determine the existence of the cash recorded in the general ledger cash account.

   Determine whether the general ledger cash account includes all of the company’s cash.

   Determine any restrictions on the use of the company’s cash.

6. In order to determine the existence of the company’s cash recorded in its general ledger cash account, the auditor needed to verify that all of its bank accounts totaled the amount in the ledger account.

Which step in the audit logic sequence has been left out of these items?

NOTE: You will notice that each of the above items represents only a portion of the material that would be found in the corresponding step in the audit logic sequence. This material does not represent an entire audit. The point of the exercise is to assure yourself that you understand the kind of information included in each of the seven steps.

**Homework Exercise — Road Chargers, Inc.**

Executive management of Road Chargers, Inc., requested an operational safety audit of part of its metal drill press unit. As a part of that audit, the audit team needed to know how well the metal drilling press equipment and equipment operators comply with company safety regulations. There had been five downtime injuries of drill press operators in the last five months — two in January, one in February, one in March, and one in May. A downtime injury is defined to be an injury requiring the injured person to miss more than an hour of work. The total downtime for
the five injuries was 37 hours for the five months. Management estimated that the drill press
downtime and the resultant decrease in overall productivity had reduced revenue by approxi-
mately $265,000. In addition to the downtime injuries, two drill press operators had experienced
detectible hearing loss during the last year since the last company sponsored hearing test in
March of last year.

Among the various safety regulations, the auditors found that each operator was required to wear
safety glasses, earmuffs, and protective gloves. The drill presses should have a clear, plastic safe-
ty shield as well and a protected channel by which to safely feed the work through the press. The
drill is operated by a knee switch that operates by pressing the right knee against a lever. By shift-
ing the knee, the operator engages and disengages the drill.

The auditors discovered that the equipment had been kept in poor repair with little if any regular
maintenance. As drill bits became dull, they were not replaced, and broken bits were often used
because new bits were not kept in supply. There was a general sense of negligence in the opera-
tion — negligence by production management, operators, maintenance employees, and machin-
ists. Of the 10 metal drill press work stations, two machines were missing safety shields, five
operators were using the protective ear muffs at the time the auditors visited the plant, six oper-
ators were using the safety glasses, and four of the knee switches were sticking occasionally in
both the off and on positions.

**Required:**

Prepare a well-organized audit finding from the information provided in the above scenario. You
should identify the audit objective, the issue, criteria, existing conditions, effects, and causes.

**Hint:** A good approach for many students has been to first read each sentence in the scenario and
note whether it deals primarily with the audit objective, the primary issue of concern, criteria,
existing conditions, effects, causes, or none of these. Afterward, it has been easier for them to
organize and write the required audit finding. If you are unable to find a sentence that directly
addresses a particular part of the finding, usually you can derive that part from other parts. For
example, suppose you are unable to find the audit objective. If you can identify the primary issue
of concern from another sentence, the audit objective may be derived easily.