



International Professional  
Practices Framework

# Implementation Guide 2320

## Standard 2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

*Revised Standards, Effective 1 January 2017*

## Getting Started

While planning the engagement, internal auditors must develop a work program to achieve the engagement objectives (see Standard 2240 – Engagement Work Program). For assurance engagements, the work program must include the procedures for identifying, analyzing, evaluating, and documenting engagement information (Standard 2240.A1). The 2300 series of standards describes the actual implementation of these planned procedures.

Standard 2320 requires internal auditors to analyze and evaluate the information obtained during the engagement before drawing conclusions. When planning the engagement and creating the work program, internal auditors may have completed several engagement steps and generated important information, including a risk and control matrix and an evaluation of the adequacy of control design. The work program often links to workpapers that document the work completed, information produced, and resulting decisions. Examples of typical workpapers include: a planning memorandum or checklist, flowcharts or narrative descriptions of key processes, a process-level risk map, and a risk and control matrix that documents the

links between risks, controls, the testing approach, summaries of interviews, results, evidence, and conclusions.

## Considerations for Implementation

The transition from planning to performing an engagement may not be completely distinct, because both phases involve some degree of analyzing and evaluating audit information. Often during the planning process, internal auditors identify controls and evaluate the adequacy of their design, because this helps them identify key controls to be tested further for effectiveness.

Performing the engagement generally involves conducting the tests prescribed in the work program to gather evidence about the operating effectiveness of key controls. Based on the risk and control matrix and work program, internal auditors are likely to have a list of specific procedures and tests to be conducted. Other factors that are usually established in the work program include management assertions; testing objectives, criteria, approach, procedures, and population; and sampling methodology and sample sizes. However, some details may still need to be determined in the early stages of performing the engagement.

Ultimately, internal auditors seek to reach conclusions as a result of executing the work program (e.g., a conclusion about whether controls are effective in mitigating risks to an acceptable level). With sufficient information about both the design adequacy and the operating effectiveness of controls, internal auditors can conclude on whether existing controls are adequate to help achieve the objectives of the area or process under review.

The extent of testing depends on whether test results have produced sufficient audit evidence on which internal auditors can base their conclusions or advice. If the testing procedures prescribed in the work program do not provide sufficient information to make conclusions and recommendations, internal auditors may need to adjust the testing plan and perform additional testing. Standard 2240.A1 requires adjustments to the work program to be approved promptly.

## Analyses

Testing approaches often include a combination of manual audit procedures and computer-assisted audit techniques (CAATs); the latter includes generalized auditing software programs and programs that specialize in testing the processing logic and controls of other software and systems. Like the testing information described previously, the engagement testing procedures are usually determined during the development of the engagement work program (Standard 2240).

Internal auditors may test a complete population or a representative sample of information. If they choose to select a sample, they are responsible for applying methods to assure that the sample selected represents the whole population and/or time period to which the results will be generalized. The use of CAATs may enable the analysis of an entire population of information, rather than just a sample. Additional details about sampling techniques and CAATS may be found in The IIA's Supplemental Guidance.

Simple manual audit procedures include gathering information through inquiry (e.g., interviews or surveys), observation, and inspection. Other manual audit procedures may take longer to conduct, but generally provide a higher level of assurance. Examples of manual audit procedures include:

- Vouching – Internal auditors test the validity of documented or recorded information by following it backward to a tangible resource or a previously prepared record.
- Tracing – Internal auditors test the completeness of documented or recorded information by tracking information forward from a document, record, or tangible resource to a subsequently prepared document.
- Reperformance – Internal auditors test the accuracy of a control by reperforming the task, which may provide direct evidence of the control's operating effectiveness.
- Independent confirmation – Internal auditors solicit and obtain written verification of the accuracy of information from an independent third party.

Analytical procedures are used to compare information against expectations, based on an independent (i.e., unbiased) source and the premise that certain relationships between

information can be reasonably expected in the absence of conditions to the contrary. Analytical procedures may also be used during engagement planning (2200 series of standards).

Examples of analytical procedures include:

- Ratio, trend, and regression analysis.
- Reasonableness tests.
- Period-to-period comparisons.
- Forecasts.
- Benchmarking information against similar industries or organizational units.

Internal auditors may further investigate any significant deviations from the expectations to determine the cause and/or reasonableness of the variance (e.g., fraud, error, or a change in conditions). Unexplainable results may indicate a need for additional follow-up and may suggest the presence of a significant problem that should be communicated to senior management and the board (see Standard 2060 – Reporting to Senior Management and the Board).

## Evaluations

Internal auditors apply their experience, logic, and professional skepticism to evaluate the information discovered throughout the engagement and reach logical conclusions. Internal auditors generally approach engagements with an objective and inquisitive mind, searching strategically for information that could fulfill the engagement objectives. At each step in the engagement process, they apply professional experience and professional skepticism to evaluate whether evidence is sufficient and appropriate to formulate conclusions and/or recommendations. According to Standard 2330 – Documenting Information, internal auditors must document information that logically supports the engagement results and conclusions. However, this does not mean that internal auditors should exclude relevant information that may contradict the conclusions.

Internal auditors often conduct a root cause analysis to identify the underlying reason for the occurrence of an error, problem, missed opportunity, or instance of noncompliance. Root

cause analyses enable internal auditors to add insights that improve the effectiveness and efficiency of the organization's governance, risk management, and control processes. However, these analyses also sometimes require extensive resources, such as time and subject matter expertise. Thus, when conducting a root cause analysis, internal auditors must exercise due professional care by considering effort in relation to the potential benefits (Standard 1220.A1).

Although complex issues may require more rigorous analyses, in certain circumstances a root cause analysis may be as simple as asking a series of "why" questions in an attempt to identify the root cause of a variance. For example:

*The worker fell. Why? Because oil was on the floor. Why? Because a part was leaking. Why? Because the part keeps failing. Why? Because the quality standards for suppliers are insufficient.*

Most root causes can be traced back to decisions, actions, or inactions by a person or multiple people. However, determining a *true* root cause may be difficult and subjective, even after internal auditors have performed an analysis of quantitative and qualitative data. In some cases, multiple errors with varying degrees of influence may combine to form the root cause of an issue, or the root cause could involve a risk related to a broader issue such as the organizational culture. Therefore, internal auditors may choose to include input from several internal and external stakeholders. In some cases, internal auditors may provide a variety of possible root causes for management to consider, based on an independent and objective evaluation of various scenarios as the root cause of an issue. When the time frame or skill levels needed to complete the root cause analysis exceed that which is available within the internal audit activity, the chief audit executive may recommend that management address the underlying issue and conduct further work to identify the root cause.

## Considerations for Demonstrating Conformance

Workpapers generally document sufficient information about the engagement's analyses, results, and conclusions to enable the reader to understand the basis of the conclusions. Workpapers also typically describe the test population, sampling process, and sampling method that the internal auditors used. Workpapers are cross-referenced in the work program. Supervisory reviews of the engagement (Standard 2340 – Engagement Supervision) may provide additional validation.

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Implementation Guidance, as part of The IIA's International Professional Practices Framework® (IPPF®), provides recommended (non-mandatory) guidance for the internal audit profession. It is designed to assist both internal auditors and internal audit activities to enhance their ability to achieve conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Implementation Guides assist internal auditors in applying the *Standards*. They collectively address internal audit's approach, methodologies, and consideration, but do not detail processes or procedures.

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