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How to gather and evaluate information

Chartered Institute of Internal Auditors

Information is central to the role of an internal auditor. Gathering and evaluating information is the basic activity that allows you to evaluate the effectiveness of governance, risk management and control and to provide assurance and insight.

This guidance will help you to think critically about the information you need to deliver a successful engagement. It highlights a number of techniques and tools for gathering and analysing this information.

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What is information?

Information is simply the facts or knowledge provided or learned. It can be tacit, in people's heads, or explicit, in documents - electronic or hard copy.

A wide range of facts and knowledge may interest an internal auditor. They may concern:

1. The organisation's business model, the industry it works in and its history.
2. How the organisation is perceived and its performance.
3. Its stakeholders including regulators, government, and community.
4. The culture and morale of the organisation.
5. The organisation's key objectives.
6. Policies and procedures and ways of working.
7. Risk management, risk appetite, the risks it faces and the responses to them.
8. Transactions it is undertaking.
9. Customers to whom goods and services are supplied, its assets and liabilities
10. The way those transactions, assets and liabilities are recorded and valued financially.
11. Activities people undertake or how they perform them.

In other contexts, people talk about 'evidence', rather than 'information' to stress the importance of information in supporting conclusions and internal audit opinion. In particular, external auditors and criminal investigators use the term evidence as 'something that furnishes proof'.

Information types and sources to consider

Facts

A unique bit of information that identifies an object, person, place, or date. (Information in this area is likely to come from internal sources).

- Personal data
- A business record such as an order, an invoice, an accounting entry
- A record of an event such as committee minutes, progress report

Principles

A basic idea or rule that explains or controls how something should happen or work, including standards of behaviour. (Information in this area is likely to be a combination of external and internal sources).

- Legislative requirements
- Rules set down by regulatory bodies
- Policies and ethical standards
- Standing orders and authority limits
- Technical standards and best practice

Concepts

A category of ideas or items that share common features. (Information in this area is likely to be a combination of external and internal sources).

- Mission statements and organisational policies
- Strategic and financial plans
- Risk identification and evaluation
- Academic papers and surveys'

Processes

A description of how something works or operates - the actions that are taken to achieve a result. (Information in this area is likely to be a combination of external and internal sources).

- High-level systems descriptions
- Flow charts and process flows
- Technical guides and user manuals
- Project plans and schedules

Why is information important to internal auditors?

The role of internal audit is to evaluate how effective the organisation is at governance and at managing risks. In order to evaluate the effectiveness, the internal auditor must gather facts about the particular subject matter and how it is being managed and compare those facts to the criteria that describe what 'effective' looks like.

The rest of this guidance covers how internal auditors decide what information they need for an engagement. It will outline the factors they take into account to decide the type of information they will collect and the amount and characteristics of the information they want. It will then consider techniques for gathering and analysing the information.

What information do internal auditors need?

To decide the information they need for an engagement, internal auditors need to identify the general subject matter and the criteria that describe effectiveness and then to consider the amount and characteristics of information that they require.

The objectives and scope of the engagement establish the subject matter and will, therefore, guide the internal auditors to the general area or type of information that they require for the work.

Performance Standard 2210 states objectives must be established for each engagement with 2210.A1 going on to say that internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

The established scope must be sufficient to achieve the objectives of the engagement, as required by Performance Standard 2220. The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties (2220.A1).

If they have any doubt or uncertainty about the objectives and scope, the internal auditor should clarify these with the audit manager and/or the client to avoid missing something important or setting off in the wrong direction.

Part of the planning of the engagement will have been to identify the criteria (the standards, measures, or expectations used in making an evaluation and/or verification) to use to evaluate the subject matter, either the existing ones that senior managers use or ones that the internal auditor and senior manager develop together.

These criteria will enable the internal auditor to home in on specific information needs. Thinking about, planning and gathering information about the achievement of the criteria will provide the systematic, disciplined approach referred to in the definition of internal auditing.

Taking the subject matter and the criteria, the internal auditor then needs to decide how much and what type of information to gather and where to find it.

What quality of information is important?

Performance Standard 2310, Identifying Information says that "internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

What does this mean?

Sufficient

Information is sufficient when there is enough of it for the internal auditor to come to an unbiased

and dependable conclusion about the subject under review. Sufficiency will depend on the scope of the work and the criteria that has been agreed during the engagement planning process.

The International Standards notes that one of the criteria for sufficient information is that it is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the internal auditor.

For example, the amount of information gathered about a process that has many thousands of transactions may be greater than the information needed for an activity that has relatively few. Also, the likelihood and impact of a risk may influence how much information needs to be gathered and analysed in order to provide assurance.

This links to deciding the sampling strategy and choosing a sampling procedure appropriate to the audit objectives. Options include random, judgmental, stop and go, variable, discovery and attribute sampling.

In simple terms, the more confidence and precision the internal auditor requires, the larger the sample size will be. However, as most processes are now automated there are tools that enable internal auditors to access and analyse the whole population.

Deciding how much information is necessary is therefore a matter of judgement given the complexity of the subject matter, the significance of risks, and performance criteria.

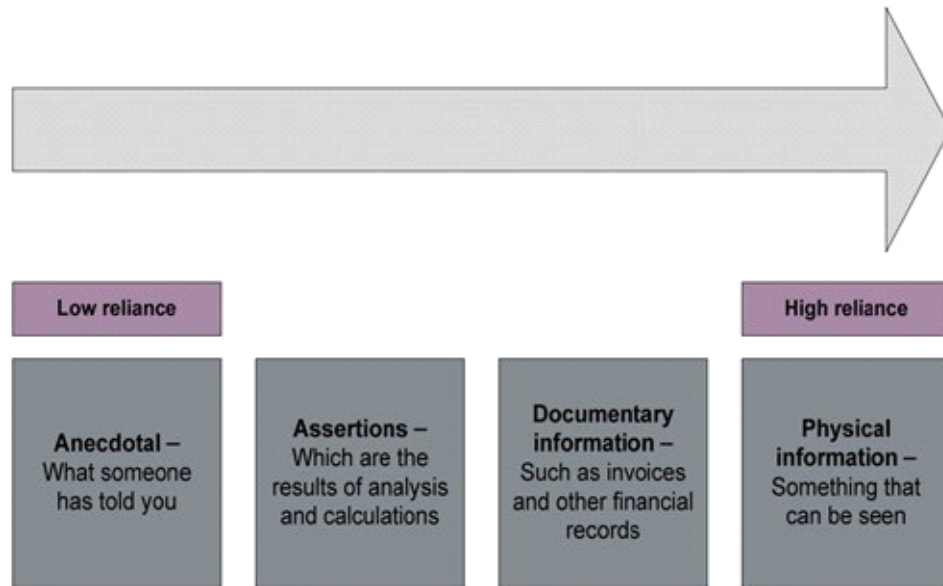
Reliable

Information that is reliable is information that is accurate and credible. Reliability partly depends on the information type. Information is more reliable where it is gathered via direct physical examination, observations and inspections and where it is received in documentary form, rather than verbally.

If the information is generated by the internal auditor, is it clear what calculation or analysis has been undertaken to generate it? If part of a sample, is the auditor certain that the sample has been selected randomly and independently?

The degree of information reliability increases where it is received from several sources.

This is a model or concept often used to consider the level of reliance that can be placed upon information. While all forms of information have a place, it would not necessarily be appropriate to come to an opinion on the adequacy and effectiveness of the controls in a particular area based solely upon discussions with the people who work in that area without first understanding the culture and risk maturity of the organisation.



Relevant

Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement.

The internal auditor should continually reassess the pertinence of the information collected to the overall objectives of the engagement - in terms of activities covered or time period of the audit engagement and to the risk responses that are being reviewed, including control testing.

This means keeping in mind that the information collected must establish a sound base to support conclusions and opinions.

For example, if the objectives are to provide assurance on the management of the risk of incomplete reporting, relevant information is about ensuring each item is reported, not that it is reported accurately, which is a separate issue.

Useful

Usefulness of the information is about ensuring that the information gained helps the organisation meet its goals. It is linked to reliability and relevance as well as sufficiency. The internal auditor should consider if the information is recent enough to still be useful? The scope of the internal audit work may also be time bound (for example if a new process was implemented, the scope of the internal audit engagement may cover only those risk responses in place since that new process was implemented).

How do internal auditors gather and analyse information?

Internal auditors use many different techniques to gather information. Here are some of the more usual ones.

Being part of the organisation

To begin with it is important to recognise that internal auditors develop knowledge and understanding of the way the organisation works often by being a part of it (informal meetings, relationship management, networking, use of systems such as expenses and staff appraisal) although in some organisations it may be delivered on an outsourced basis. This knowledge, along with the results of previous internal audit engagements is a valuable source of information and is part of being an 'internal' auditor.

'Walk-through' - experiencing how transactions happen

Internal auditors can add to their knowledge by observing processes in operation. In addition, internal auditors can use "walk-throughs" to gain experience of how a process or system actually works. The internal auditor selects one or two transactions and follows them through the system comparing how it works in practice to the existing documentation - procedure manuals, instructions, flowcharts - or to the results of discussions with the people involved. This helps the internal auditor to devise a testing based on key risks. In fact risks may need to be reassessed where practice has deviated from the theory.

Self-completing survey

Internal auditors can use a survey as a simple and quick technique to gather specific facts from individuals, a group of people or an organisation. For example, internet survey solutions, some of which are free, can provide a cost effective approach where the organisation covers a wide geographical area.

However, problems can arise with surveys:

- If people receive a lot of questionnaires to complete, they may be reluctant to fill out another one for internal audit.
- If the internal auditor makes them too long or complicated, people may lose interest before the end.
- Asking leading questions resulting in bias.
- A low number of completed questionnaires, known as a low response rate, can mean that the information gathered does not fully represent the population.

Internal auditors, therefore, need to find ways to improve response rates:

- Keep questionnaires as short and as simple as possible.
- Think about the demands on people's time and try to pick the best possible moment to distribute the survey.
- Carefully think through the questions, 'test' them out on peers before issuing them.
- Consider approaching recipients directly and asking them to fill in the questionnaire.

Focus group

A focus group provides less coverage than a survey but puts more emphasis on the discussion of specific issues in an informal setting and possibly on a task-based or team basis.

Focus groups are therefore likely to explore attitudes, beliefs, perceptions and problems, or to search for causes of problems and their solution. Discussions can be difficult to manage either because people are reluctant to talk, or more likely, their enthusiasm for the subject takes the discussion in different directions.

To avoid these problems internal auditors need to use their facilitation skills to focus attention on the subject in hand. To get the best results emphasis should be placed upon the development of practical solutions and recommendations.

There are also practical issues to consider, such as how information from the focus group will be recorded and analysed (note taking, flip chart information for example).

One-to-one interviews

One-to-one interviews with managers and staff provide a more direct route to specific information, enabling internal auditors to follow a particular thread or theme as the discussion develops, and are used in most internal audit situations to gather information. Internal auditors can conduct interviews by telephone or via video conferencing as well as face-to-face.

Questioning techniques

Questioning forms part of interviewing and facilitation processes. Questioning is used to gather information, build rapport (individual and group) and agree actions. Questions are either open or closed – both have their purposes.

Question types and examples:

Type	Example
Factual – to get information – to open discussion	Who, What, When, Why, How
Explanatory – to get reasons and explanations – to broaden discussion – to elicit additional information	In what way would this help sort the problem? What other aspects of the process should be considered?
Justifying – to challenge ideas – to develop new ideas – to elicit reasons and proof	What evidence do you have to support his view? How do you know? Why do you think so?
Leading – to introduce a new idea – to put forward alternative perspectives – to change the course of the discussion	Could this be a viable solution? Can we consider this as a possible alternative?
Hypothetical – to develop new ideas – to put forward alternative perspectives – to change the course of the discussion	Another company uses this system – what might happen if we introduced a similar system here? Suppose you undertook the process this way – what issues might it raise?
Alternative – to make decisions between alternatives – to seek solutions.	Which of these solutions is more appropriate – A or B? Why do you regard this solution as more appropriate?
Coordinating – to agree – to pave the way for action	Can we conclude that X is the next step?

Listening techniques

One of the key skills an internal auditor needs when gathering information from people is listening. An internal auditor needs to be both an active and critical listener. An active listener will comprehend and elicit information provided more effectively. Critical listening entails evaluating information provided and judging the credibility of both the information and the speaker.

Communication barriers

There are many potential barriers to effective communication in interviews and focus groups. There are particular issues associated with focus groups that the internal auditor will need to manage, including:

- Side bar conversations
- Deviations from the purpose of the discussions
- Never ending discussions
- Time management, particularly over runs
- Dominating participants
- Levels of staff involved – openness/frankness of discussion

'Internal audit testing'

The established and most well-known method for gathering information is through internal audit testing - substantive to determine whether the controls in place achieve the control objectives and compliance tests to determine whether the prescribed controls are being adhered to. Both tests may be used in an engagement. The internal auditor needs to understand the purpose of the activity or process, gain an appreciation of the risks and know how the activity actually operates in practice.

By providing information on how the systems and processes actually work, the testing programme helps the internal auditor to confirm or otherwise their opinion of the effectiveness of the area under review.

What not to do when gathering information

- Assume or presume that documentation exists.
- Accept what you are told without checking the supporting facts.
- Fail to document information gathered, analysed and evaluated.
- Collect too much information.
- Collect irrelevant information.
- Fail to protect the information gathered.

Analysing information

Information gathered requires verification. The internal auditor will be verifying a large amount of information as they collect it. For instance, during interviews the internal auditor will be using their questioning skills to check information from interviewees.

Performance Standard 2320 states that internal auditors must base conclusions and engagement results on appropriate analyses and evaluations. The agreed scope of the engagement and the criteria for assessing performance will be the basis of analysing the information gathered.

Analysis is something that internal auditors do to learn about the subject area or activity they are reviewing. It is different from gathering information as it involves looking at relationships within the

information and comparing the information to criteria. The internal auditor should read widely in this area as there are many techniques available to analyse information that may be quantitative or qualitative in nature:

Quantitative

Analysis can help identify patterns, trends and gaps. For example, trend analysis compares data over periods of time such as the amount of bad debt outstanding this month compared to the amount outstanding each month for a 6-month period. Ratio analysis compares the size or amount of one thing to another such as financial or accounting ratios and proportional analysis, for example: overtime as a % of total pay. Statistical analysis enables the internal auditor to establish the rate of error within a population.

Sampling

Sampling is usually used by internal auditors to locate small sets of items (records and transactions) from large sets. The general idea is that where there is a large set, a sample will be used to provide information in area under review. Sampling is also a method for gathering and analysing quantitative data. There are some key terms that are associated with sampling:

Population size – In sampling, the population is the entire set of items from which the sample will be drawn. The populating size refers to the number of that population.

Sample size – This is the size of the sample in relation to the population. Internal audit activities may have a policy on sample sizes that can be located within the internal audit manual.

Confidence level – The degree of certainty that the sample is the same as the population, for example 95% confidence level indicates that 95 times out of 100 the sample will reflect the population and five times out of 100 it will not and we will draw the wrong conclusions.

There are two basic types of selection:

- Selection by the auditor through judgement (non-statistical selection)
- Statistical selection, which relies upon statistical science.

CAATs

Computer-assisted audit techniques and tools (CAATTs) have the ability to improve the range and quality of internal audit analysis. These tools provide functionality to analyse large volumes of data from different sources to be compared and organised – this is also known as **data mining and data analytics**. This may mean that the internal auditor can test a whole population, rather than just a sample.

Some examples of their usage include the ability to access and extract information from client databases:

- Total, summarise, sort, compare and select from large volumes of data in accordance with specified criteria.
- Tabulate, check and perform calculations on the data.
- Perform sampling, statistical processing and analysis.
- Provide reports designed to meet particular audit needs.

Big data

With the sheer volume of data available to organisation's it brings complexity to the organisation's existing risks and raises a number of new ones. **Big data** and analytics are enabling auditors to better identify financial reporting, fraud and operational business risks and build their approach to deliver a more relevant audit. Thus enabling more efficient analysis on a greater scale; possibly highlighting patterns that may not be observed from traditional sampling, and providing a greater level of assurance. At the same time it may help internal auditors to better understand the business and deliver enhanced quality and coverage while providing more business value.

However, integrating analytics into audits is not without its challenges. Access to audit relevant data can be limited for example identifying where data is located in complex organisations environments, where different divisions are utilising different systems; confidentiality and privacy concerns or additional work required to 'normalise' data where different processing platforms are used, none of which define grouping by the same parameters. In addition the availability of qualified and experienced internal audit resources; as well as timely integration of analytics into the audit.

Qualitative

Qualitative information is as important as quantitative, but it poses challenges to the internal auditor. Sufficient information is needed to be able to draw conclusions and with qualitative information conclusions may be based on subjective judgments.

In an internal audit engagement, qualitative data may be unquantifiable or non measurable, for instance an organisation's reputation.

Audit documentation

The auditor must appropriately document the work performed. This must contain sufficient information to enable an experienced internal auditor, having no previous connection with the audit engagement to:

- Understand the nature of the control tested, details of the population, sampling unit, control deviation, the statistical parameters use, the sample size and the evaluation of results. The working papers should also describe how the audit tests were performed and should provide a list of the actual deviations found and conclusions reached.
- Determine who performed the work and the date such work was completed, as well as the person who reviewed the work and the date of such review.
- Understand the linking between the conclusions and the facts.

Other considerations

When accessing and gathering information, internal auditors should also consider the legal requirements relating to the protection of personal data, such as the UK Data Protection Act, and the Irish Data Protection Act both of which were originally published in 1988.

This guidance has focused on internal audit engagements and their direct needs in terms of information. Some internal auditors may, in addition, undertake other types of work: investigations that lead to disciplinary action or prosecutions. These have different requirements for gathering and for documenting information which are beyond the scope of this guidance.

Further reading

Standards

2300 - Performing the audit engagement
2310 - Identifying information
2320 - Analysis and evaluation

Implementation guides

2300 – Performing the audit engagement
2310 – Identifying information
2320 – Analysis and evaluation

Supplementation guidance

GTAG16 Data Analysis

External resources

National Audit Office - [A practical guide to sampling](#)