



# **SESSION 4.0**

## **Defining Audit Topic and Objective**



# LEARNING OBJECTIVES



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By the end of this session participants will be able to select an audit topic in auditing forest and define its audit objective(s) to be conform to the Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience and the Guidance Material on Auditing the Forest.



# CHOOSING AND DESIGNING AUDIT TOPIC OF FOREST



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ISSAI 3000 mentioned that :

- The number of potential areas is considerable and the SAI's capacity is limited.

***This means that choices must be made with care. In many cases, one prioritized risk can be related to more than one topic.***

- The auditor needs to choose the most important topics to be considered.

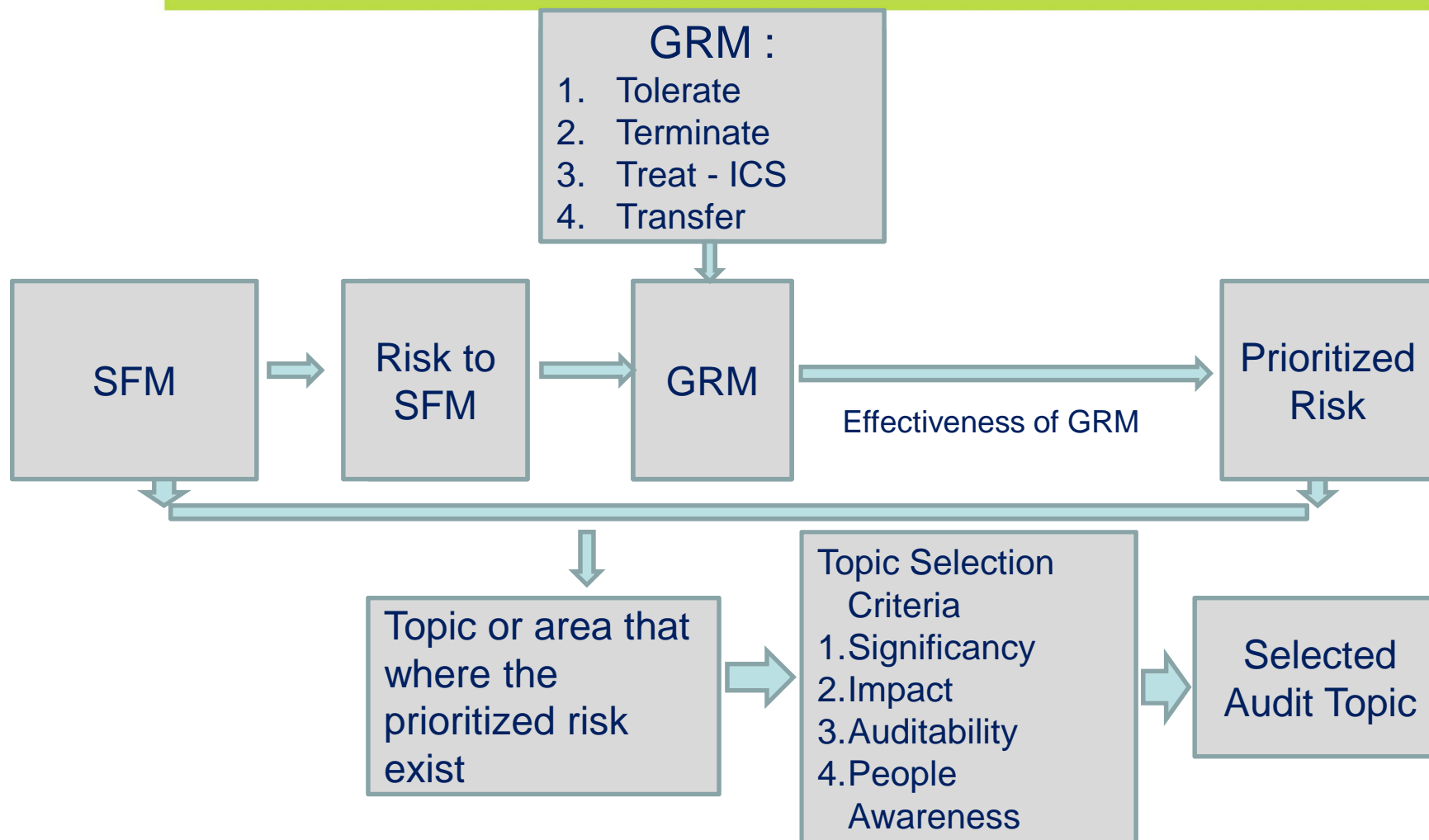


# RISK, GOVERNMENT RISK MANAGEMENT (GRM), AND AUDIT TOPIC



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# GOVERNMENT RISK MANAGEMENT (GRM)



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## The Definition of GRM

A systematic approach for setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating



# GOVERNMENT RISK MANAGEMENT (GRM)



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Factors  
to consider

1. Cost
2. Feasibility
3. Probability
4. Potential impact
5. Opportunity to exploit the positive impact
6. Excessive caution



# INTERNAL CONTROL SYSTEM (ICS)



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## The definition of ICS

An integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission

## Components of IC (COSO)

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

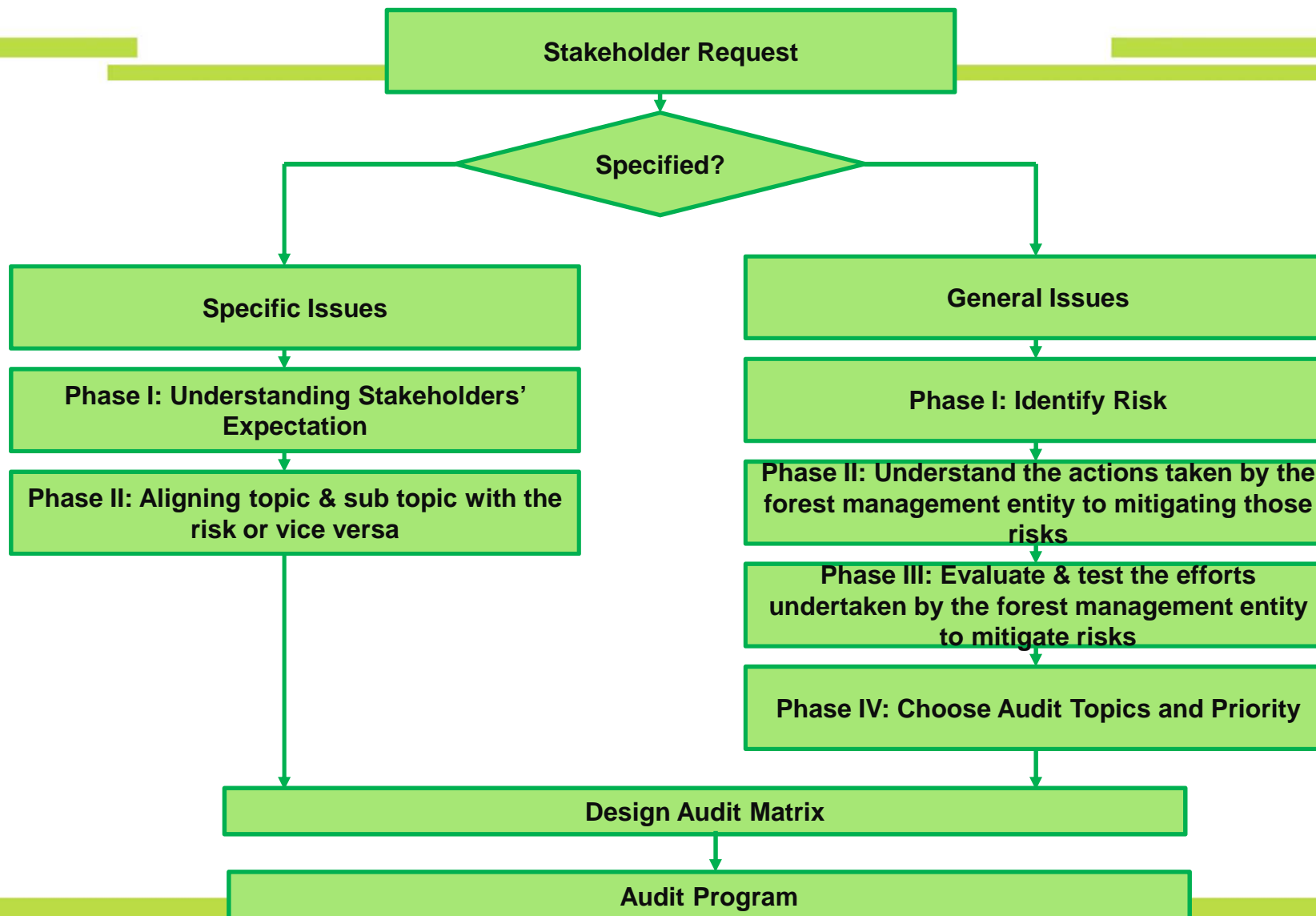


# PLANNING STAGES OF PERFORMANCE AUDIT ON FOREST



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# PRIORITIZING AUDIT TOPICS OR SELECTING KEY AREAS (General)



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Phase
<b>I. Identifying Risk</b> <ul style="list-style-type: none"><li>• identify risks pertinent to each sub-topic</li><li>• consider the special characteristics of forest in question and the key players involved.</li></ul>

How
Use external sources, include academic papers, studies done by NGOs, interviews with relevant officials and representatives, and information from the media.



# PRIORITIZING AUDIT TOPICS OR SELECTING KEY AREAS (General)



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Phase
<b>II. Understanding <i>the forest management entity's efforts to mitigate risks</i></b> <ul style="list-style-type: none"><li>gain an understanding of the steps taken by the management entity and other key players involved.</li></ul>

How
<ul style="list-style-type: none"><li>Reviewing legal regulations, standard operating procedures, policies, and other instruments set out by the government;</li><li>Interviewing some “key players”.</li></ul>



# PRIORITIZING AUDIT TOPICS OR SELECTING KEY AREAS (General)



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Phase
<b>III. Evaluate and test the capacity of the management entity to mitigate risks</b> <ul style="list-style-type: none"><li>• assess the entity's effort in mitigating those risks →</li><li>• Result :<ul style="list-style-type: none"><li>• information on important topics and sub-topics,</li><li>• Adequacy of entity's control systems or potential to create further risks.</li></ul></li></ul>
How
Discussing the entity's various controls systems and procedures with the relevant entity's staff and senior officials Sample-testing to check whether the systems and procedures are sufficiently effective and reliable.



# PRIORITIZING AUDIT TOPICS OR SELECTING KEY AREAS (General)



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## Phase

### IV. Choose audit topics and priorities

To consider the auditors' capacity to answer audit questions and its findings, the level and nature of public attention surrounding the subject, the amount of money involved, and the nature and extent of the impact that might result from the audit findings.

## How

Apply the selection criteria: risk to good management, significancy, impact, auditability → Interview government officials, analyze previous audit reports, research on public opinion regarding the topic and sub-topics to be audited, etc.



# SELECTIONS CRITERIA TO CHOOSE AUDIT TOPIC



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Strategic planning is the basis for selecting audit topics and possible pre-studies;

1. Determining the potential audit areas from which the strategic choices are to be made.
2. Establishing the selection criteria to be used for these choices.

The auditor needs to consider all risks related to SFM and the effectiveness of the GRM including the ICS in mitigating those risks.



# SELECTIONS CRITERIA TO CHOOSE AUDIT TOPIC



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## Selection criterias:

- Risk to good management;
- Significancy;
- Impact; and
- Auditability.

Some SAI's

May choose  
topics based on  
strategic choices



# PRIORITIZING AUDIT TOPICS



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Audit topic

Prioritizing

Identifying  
risks

Understanding  
the forest  
management

Evaluating and  
testing

Choose audit  
topics



No	Potential Risks	The Effectiveness of GRM/IC	The Prioritized Risk	Audit Topics that have relation to the Prioritized Risk	Selection Criteria				Priority
					Risk to good management	Significancy	Impact	Auditability	
1	2	3	4	5	6	7	8	9	10
1.	Risk A	H/M/L	H/M/L	Topic A.1	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic A.2	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic A.3	H/M/L	H/M/L	H/M/L	H/M/L	
2.	Risk B	H/M/L	H/M/L	Topic B.1	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic B.2	H/M/L	H/M/L	H/M/L	H/M/L	
				Topic B.3	H/M/L	H/M/L	H/M/L	H/M/L	
3.	Etc								



No	Topics/Subtopics*	Risk											
		A	B	C	D	E	F	G	H	I	J	K	L
1	Policy and legislation												
1.1	Forest policy		X	X	X		X						
1.2	National forest inventory	X	X	X				X		X			
1.3	Permanent forest estate	X	X	X	X			X				X	
1.4	Protection of biology diversity	X											
1.5	Soil and water protection	X				X						X	
1.6	Forest ownership	X	X	X	X		X	X					
1.7	National forest service				X								
2	Forest management												
2.1	Planning	X	X	X					X	X	X		X
2.2	Harvesting	X	X	X				X	X	X	X		
2.3	Protection	X	X	X	X	X	X			X		X	X
2.4	Legal arrangements	X	X	X	X		X	X	X	X			
2.5	Monitoring and research	X	X	X	X	X							
3	Socio-economic, financial, and environmental aspects												
3.1	Relations with local populations	X			X		X		X				
3.2	Economic, incentives, and taxation		X	X	X				X				

A : Biodiversity and ecosystem loss  
 B : Forest fires  
 C : Illegal logging  
 D : Illegal use of land  
 E : Disaster  
 F : Conflict

G : Revenue Loss  
 H : Unemployment  
 I : Social problems  
 J : Decreased carbon storage  
 K : Damage to water management  
 L : Shortage of raw materials for industry



# FORMULATING POTENTIAL AUDIT OBJECTIVE



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After the identification of risks, topic and sub topic, the auditor then should formulate audit objective based on selected topics and sub topics.



# AUDIT OBJECTIVE



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**Audit objective** is a precise statement of what the audit intends to accomplish and/or the question the audit will answer. It is also the answer to why the audit is being conducted based on SAI's audit mandate.



Audit objective and audit scope will direct the auditor in deciding the audit evidence, and method in analyzing evidence. The changing in the audit objective will cause the changing in the audit scope and afterward activities.



# THE IMPORTANCE OF THE AUDIT OBJECTIVE



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Direct the auditor in deciding  
the audit evidence, method in  
analyzing evidence and so on



# CHARACTERISTICS OF GOOD AUDIT OBJECTIVE



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1. Precise
2. Clearly define
3. Based on rational and objective considerations
4. Established early in the execution process
5. Take into account the roles and responsibilities of the SAI
6. Articulate what the audit is to accomplish



# AUDIT SCOPE



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The audit scope defines the boundary of the audit; consist of the work of collecting information and the analyses to be executed.

Answering the questions of:

**What?** What specific questions or hypotheses are to be examined? What kind of study seems to be appropriate?

**Who?** Who are the key players involved and the auditee(s)?

**Where?** Are there limitations in the number of locations to be covered?

**When?** Are there limitations on the time frame to be covered?





# HOW TO SET THE AUDIT OBJECTIVE AND SCOPE



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Audit objectives should be **SMART** i.e. *Specific, Measurable, Achievable, Realistic, and Timely.*

The scope of an audit is determined by answering the following questions: ***What?, Who?, Where?, and When?***

