**ANNEX 1**

**Date: ……………………**

**Engagement Planning Memorandum**

**Audit Engagement: ....................................................**

# Purpose and justification of the engagement

The mission is included in the *[entity name]* *[year]* audit plan. This follows the audit risk assessment carried out in *[year]* as part of the preparation of the *[entity name]* strategic audit plan for *[period of the strategic audit plan]*.

Here the auditors may introduce a description of the inherent risks related to the audited process and of the purpose of the engagement, i.e. why it was retained for audit. Usually this is the importance of the process for the objectives of the entity combined with the relatively high risk. You can also mention if the timing of the assignment is linked to a specific event (new programme, new regulation, etc.). See *“Planning Roadmap”* for the source of information.

# Description of the activity of the entity and of the audited process

## Entity and main objectives

Introduce in this paragraph the objectives related to the audited process, the link with the general and specific objectives included in the strategic and annual plans of the entity as well as the relevant KPIs and targets.

## The audited process

Describe in this paragraph the audited process and the key governance, risk management and internal control measures directly related to the audited process. Mention those "key controls" which address the main inherent risks described under point 4 and which will be later tested.

# Legal base and other key information

As a minimum, the reference documents should include the documents establishing the applicable legal framework of the audited entity and process. The nature of the figures depends on the audited process. For instance, for public procurement, it can be the number and value of procurement actions per type of procedure.

# Main risks related to the audited processes

## Previous audits related to the audited processes

Refer in this paragraph to relevant audit reports. The conclusions of other auditors can often be used to formulate risks.

## Changes since last auditor’s risk exercise

Identify the changes produced since last auditor’s last risk exercise and check if the risks were considered in the risk management of the entity. If not, identify the inherent risks.

## Risk management assessment

Identify and assess the risk management process and its results. If process generates reliable results, leverage them for completing the Risk and Control Matrix.

## Conclusion

Describe in this paragraph the:

- key inherent risks and the likely risk response. For risks that are to be controlled assess the likely residual risks of the audited process and activities, taking into account the key internal controls described under 2.2.

- risks identified as a result of prior audits

- risks generated by new activities or processes implemented after the last risk assessment performed for annual planning

- risks identified as significant as a result of risk management review

All these risks should be mirrored in the Risk and Control Matrix.

# Objective(s) and scope of the audit engagement

## Objective(s)

List here the objective(s) and the reasoning for their choice. The objective(s) should be linked with the board[[1]](#footnote-1), superior management and stakeholders’ expectations and goals.

## Potential findings and recommendations

Based on your work performed, describe in this paragraph the main expected (potential) findings and recommendations.

## Scope

Describe the areas, processes, activities, etc. that will be covered by the audit engagement. It must be mentioned, as well, all the processes, activities, etc. that will **not** be covered by the audit engagement. The period of time the audit will focus on should be mentioned as well.

## Scope limitations

Mention if internal or external scope limitation were identified. If yes, please describe the nature of the scope limitation and its impact on the engagement results. The explanations provided in section 5.3 on what is not included in the audit scope do not represent scope limitations.

# Units and services to be audited

List here the directorates, units or services that will be subject of audit engagement.

# Audit methodology

## Audit methodology

Under this paragraph, mention the internal audit rules and procedures to be followed. This may include national or international standards, laws and regulations, guidelines, system or operational procedures.

Additionally, a description of the internal audit instruments and technics should be mentioned (e.g. desk reviews, interviews, walk-through and compliance tests, sampling methods and instruments). For the sampling, please present in detail the aim of test, the population, how the sample will be obtained and other significant aspects.

Mention that the actual findings will be validated during a meeting at the end of the on-the-spot fieldwork.

## Audit programme

Issue the Risk and Control Matrix and make reference to it in this paragraph. The last columns in that document meet the criteria to use the document as audit programme.

## Target planning

|  |  |  |  |
| --- | --- | --- | --- |
| Audit Phase | % of Time Budget[[2]](#footnote-2) | Milestones | Timing |
| Start & Planning | 20% | Audit start |  |
| End of planning |  |
| Fieldwork | 60% | Scope &Objective(s) Memo issued |  |
| End of fieldwork |  |
| Reporting | 20% | Draft Report issued |  |
| End of contradictory procedure |  |
| Final report issued |  |

Please check the consistency of timing with the dates in the annual plan

## Resources

Present the total days within the mission budget. Ensure that the number of days correspond with the number of days approved in the annual or updated approved audit plan. Any difference should be mentioned and explained explicitly and any budget increase will be subject to senior management approval before finalization of the EPM.

Present the overall coordination of the audit engagement: supervisor, the team leader, the audit team members, using the table below.

|  |  |  |
| --- | --- | --- |
| Role | Name | Position |
| Supervisor |  |  |
| Team Leader |  |  |
| Team Members |  |  |
|  |  |
|  |  |

Present if these auditors have the qualifications and previous experience relevant to the engagement (e.g. knowledge of the area through experience gained in an operational function, previous participation in audits in the same area, knowledge of the audited unit gained from previous audits, knowledge of the audited topic gained from previous audits, etc.). Conclude if the staff assigned to the engagement has the appropriate skills to undertake the required work.

The budget allocation for each member of the team is presented in the attached *“Engagement Programme”*. Please check that the total budget from this document needs to be the same with time budget from annual plan. The time allocation of the time budget should respect the percentages provided at point 7.3 from above.

# Potential difficulties (if applicable)

………………

|  |  |  |  |
| --- | --- | --- | --- |
| *[name]* | *-* | *[position]* | *[signature]* |
| *[name]* | *-* | *[position]* | *[signature]* |
| *[name]* | *-* | *[position]* | *[signature]* |
| *[name]* | *-* | *[position]* | *[signature]* |

1. Board = The highest-level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization’s activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word “board” in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, “board” in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee). [↑](#footnote-ref-1)
2. Subject to individual professional judgement [↑](#footnote-ref-2)