



**County of Monterey
Internal Audit Policies**

August 2018

1. Introduction

The primary mission of the internal audit function is to perform independent reviews and evaluations of significant activities within the County to ensure that financial results of activities are fairly stated and the activities are in conformance with policies, procedures, laws, and regulations. The Board of Supervisors (Board) shall retain the authority to conduct audits and may assign audits as they determine to the Auditor-Controller's Office, the County Administrative Office, the Office of the County Counsel, or external providers. The outcome of the internal audit function will be to assist the Board in fulfilling its oversight responsibilities and improve the County's operations, governance, risk-management, and internal control processes.

2. Role

The Board oversees internal audits through the Budget Committee. The Budget Committee consist of two Board members. In addition to providing oversight of the County budget, the Budget Committee's role will also include, among other duties:

- Reviewing and evaluating Audit reports and findings;
- Identifying, monitoring, and ensuring significant risks and exposure are adequately mitigated;
- Ensuring development of and adherence to the internal audit plan;
- Supporting the implementation of the internal audit plan; and
- Monitoring the implementation of corrective actions.

In order to satisfy the 'competency' requirement of the standards, the Board shall establish access to an independent expert with knowledge and understanding of government operations and auditing.

The Board has ultimate authority over which audits will be performed, and will assign audits to the Auditor-Controller's Office or may establish other internal resources such as the County Administrative Office or the Office of the County Counsel to initiate and oversee certain audits. Furthermore, the Board shall have authority to engage external providers to conduct County audits.

Within the County, the Internal Audit Division is managed by a Chief Deputy within the Auditor-Controller's Office. The Internal Audit Division shall complete audits as authorized by the Board. The Auditor-Controller and Chief Deputy will report at least quarterly to the Budget Committee and annually to the Board.

3. Standards for the Professional Practice of Internal Auditing

In accordance with Government Code Section 1236, internal audits will be conducted in conformance with the Standards promulgated by the Institute of Internal Auditors as the basis for planning and conducting the County's audit activities. The internal audit program will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA) International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition

of Internal Auditing.

In performing internal audits, other relevant sources will be considered, including but not limited to, Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Auditing Standards (GAAS). The internal audit function will be carried out with adherence to the County's Administrative Manuals and the County's established policies and procedures.

4. Authority

The Board shall retain the authority to conduct audits and may assign Offices within the County to initiate audits as they deem appropriate including the Auditor-Controller's Office, the County Administrative Office, the Office of the County Counsel, or may engage external providers to conduct audits.

Furthermore, the Office or external provider engaged for audits by the Board, or through the Board's Budget Committee, is authorized full, free, and unrestricted access to any and all of Monterey County records, physical properties, and personnel deemed necessary to complete an audit and carry out any engagement that is listed in the annual audit plan and/or authorized by the Budget Committee and/or the Board, subject to accountability for confidentiality and safeguarding of records and information, unless prohibited by law.

The Board shall provide a budget to the Budget Committee to fund audits in accordance with the audit plan or to fund unanticipated audits as authorized by the committee. The Budget Committee will support funding actions, with final approval by the Board.

The Board delegates authority to the Budget Committee to request and authorize investigations into any matters within its scope of responsibility.

5. Independence and Objectivity

Internal audit staff will observe integrity, objectivity and independence while carrying out their professional responsibilities. The internal audit program and staff will remain free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. If independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

The Auditor-Controller and Chief Deputy overseeing the Internal Audit Division will confirm to the Board on an annual basis, the organizational independence of the division. Any and all conditions that impair independence will be disclosed as necessary.

6. Responsibility

The internal audit function comprises of responsibilities including, but not limited to the

evaluation of various functions and control systems in the County and advising the Board and management on the adequacy and effectiveness of governance, risk management, and internal processes. The internal audit activity will be performed by internal or external resources in accordance with California Government Code Section 1236 and applicable Standards. The fulfillment of these responsibilities includes but are not limited to:

- Remaining independent and objective in performing the work
- Disclosing details of any appearance or fact of impairment
- Developing a risk-based annual audit plan
- Planning and conducting audits of economy and efficiency in the use of County resources to accomplish established goals and objectives and whether the operations or programs are being carried out as planned
- Evaluating the reliability and integrity of financial and operating information that is developed within the County and the means used to identify, classify, and report such information
- Determining the sufficiency of and adherence to County plans, policies, and procedures, and compliance with laws and regulations
- Ascertaining the adequacy of controls for safeguarding County assets and, when appropriate, verifying the existence of assets
- Assessing the adequacy and effectiveness of processes for controlling activities and managing risks
- Performing special reviews or evaluations of specific operations as requested by the Board, the Budget Committee, or County management
- Performing engagements with proficiency and due professional care
- Continually enhancing knowledge, skills, and other competencies
- Reporting significant risk exposures, control issues, governance issues, and other matters as needed, to the Board, the Budget Committee, and/or other appropriate parties

7. Requests for Audits, Reviews, or Investigations

Audits, reviews, or investigations may be conducted at the request of the Board, the Budget Committee, or any other County official. Audit work that is not on the approved annual plan will be presented to the Budget Committee for review and support and to the Board for final approval. The Budget Committee will have an annual budget and may propose to fund audits as deemed necessary by the Budget Committee. Audit work requiring additional funding beyond budgeted resources should be submitted to the Budget Committee and the Board, as necessary.

8. Internal Audit Plan

The Auditor-Controller's Office will present an annual internal audit plan to the Budget Committee by March for the following fiscal year for review. The Board shall have the final

approval of the internal audit plan. The internal audit plan will consist of a work schedule and resource requirements for the following fiscal year. The Auditor-Controller's Office is responsible for communicating to the Budget Committee the impact of any resource limitations.

The internal audit plan will be developed based on prioritization using a risk-based assessment of County programs and operations, including input from County departments, the Board, and the Budget Committee. The Auditor-Controller's Office should communicate and explain any significant divergence from the approved internal audit plan to the Budget Committee and the Board.

9. Reporting and Monitoring

The Auditor-Controller or designee will report to the Budget Committee quarterly unless the meeting is canceled. The Auditor-Controller will report to the Board at least annually.

In the event oversight responsibility of an audit is delegated to another County department, such as the County Administrative Office or County Counsel, such department shall report on the completed audit results at the following scheduled quarterly meeting, unless the meeting is canceled.

Upon completing an audit, a written report will be prepared, in accordance with applicable standards, communicating audit results to the Budget Committee and to appropriate levels of management and the Board, as appropriate.

The department, office, or agency being reviewed shall prepare a response to specific findings and recommendations of an audit. Management's response may be included in the final audit report, or may be provided thereafter within a reasonable period of time, but must include a timetable for completion of corrective actions where appropriate and explanation of any corrective action that will not be implemented.

The Board is primarily responsible for ensuring the satisfactory resolution of all significant findings and will work with the department, office, or agency to ensure satisfactory resolution.

The assigned department completing the audit will complete a follow-up review to verify that all conditions noted in the audit report have been corrected. Upon completion of the review, the department conducting the audit and review will report to the Budget Committee and appropriate levels of management and the Board.

The Auditor-Controller is also responsible for reporting on the performance relative to the internal audit plan.

Reporting will also include significant risk exposures, internal control issues, fraud risks, governance issues, and other matters as requested by the Budget Committee and/or the Board.

10. Quality Assurance and Improvement Program

The Auditor-Controller's Office has ultimate responsibility for the quality of work of audits performed within the Department. The internal audit function will incorporate a quality assurance and improvement program that includes an evaluation of the internal audits' conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.

The Auditor-Controller's Office will communicate to the Budget Committee, the Board and County management on the internal audit quality assurance and improvement program within the Department, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent, external, peer review organization.