

COUNTY OF MONTEREY BOARD OF SUPERVISORS BUDGET COMMITTEE GAPS IN CONFORMANCE TO STANDARDS EXECUTIVE SUMMARY

Objective:

The purpose of the analysis is to compare existing internal audit policies and procedures and the Budget Committee's roles and responsibilities with Audit Committee Guidance as prescribed by the Institute of Internal Auditors. The analysis was driven from application of IIA standard 2110 – Governance which requires the following:

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

- *Making strategic and operational decisions.*
- *Overseeing risk management and control.*
- *Promoting appropriate ethics and values within the organization.*
- *Ensuring effective organizational performance management and accountability.*
- *Communicating risk and control information to appropriate areas of the organization.*
- *Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.*

[Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing](#)

Overview:

The detailed analysis ranks gaps as either 1) minor/inconsequential, 2) significant, and 3) substantial. We encourage the Board/Budget committee consider reviewing all significant and substantial gaps and integrate related policies, processes and statements into existing policies, procedures, and roles and responsibilities. In this way, the Board and Budget Committee can be assured they are effectively overseeing governance, risk management, and internal control activities and the proper application of the internal audit activity in consideration of those activities. The gaps are grouped into the following categories:

- Organizing Principles
- Committee Principles
- Committee Oversight

Included in this Executive Summary are those gaps considered substantial and whose omission could jeopardize the effectiveness of an Audit Committee, which is traditionally responsible for overseeing governance, risk, and internal control activities.

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Results of Analysis – Substantial Gaps

Organization Principles

1. Consider enhancing polices to include the adoption and promotion of:
 - County values and ethics statements and programs, and
 - Enhance existing language to include specific oversight procedures surrounding Public accountability reporting as recommended by the Institute of Internal Auditors. (Refer to Committee Oversight Section of analysis discussing financial reporting responsibilities)
2. Consider who the financial expert will be and his or her inclusion and role in the committee. Internal Audit recommends the financial expert be a participant in all Board and Budget Committee meetings involving internal and external audit matters scheduled on the agenda.
3. Authoritative bodies (IIA, GFOA) emphasize the need to establish definitive durations for audit committee membership and importance of maintaining continuity. The Audit Committee should establish the terms of service/number of years' members are assigned to serve on the Committee. Three to four years is typical. Committee members should be periodically evaluated in relation to meeting the Committee's needs.

Committee Principles

1. The Board should consider if an appointed outside financial expert will be compensated for his or her time and expenses and whether Indemnity insurance should be provided.
2. As discussed above consideration should be given to developing and expressing a values an ethics policy and how those values help to achieve, or support, the Committee's activities.
3. Processes should be adopted and statements included in Policies concerning the Board and/or Committee's roles concerning:
 - Executive/closed sessions.
 - Risk management processes.
 - Fraud and related processing designed to detect and prevent fraud.
 - Ensuring effective internal controls.
 - Ensuring compliance with laws and regulations, contracts, and policies.
4. Executive/Closed sessions are not discussed. Should include language that delineates when executive/closed sessions are warranted.
5. The Board/Committee should consider including references to Government Code addressing "conflicts of interest," and emphasize strict adherence to the law. In this light, the Board should include procedures detailing what information should be disclosed and when Board/Budget Committee members should recuse themselves, if necessary.

Committee Oversight

1. The Board/Committee should consider developing and including additional statements concerning oversight responsibilities in the following areas:

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- Internal Audit Charter and its adherence to IIA's International Professional Practices Framework of the Committees roles to help ensure compliance with laws and regulations, contracts, and policies.
 - Meeting with external auditors during planning, presentation of financial results and recommendations for management.
 - Reviewing external auditors audit scope and approach and determining if there are areas that can be coordinated with the internal audit activity.
 - Reviewing the performance of the external auditor.
 - Obtaining statements from the external auditors about their relationship with the county, including non-audit services performed in the past.
 - Scheduling and conducting regularly held meetings with the external auditor.
 - Regularly reviewing progress of implemented approved action plans.
2. The Board/Committee should also consider developing and including additional statements concerning the reporting of oversight activities as follows:
- A summary of the work the Committee performed to fully discharge its responsibilities during the preceding year.
 - A summary of management's progress in addressing the results of internal and external audit engagement reports.
 - An overall assessment of management's risk, control, and compliance processes, including details of any significant emerging risks or legislative changes impacting the governing organization.
 - Details of meetings including the number of meetings held during the relevant period and the number of meetings each member attended.
 - Provide information required, if any, by new or emerging governance developments.
 - The Committee may report to the Board at any time regarding any other matter it deems of sufficient importance.