



Internal Audit

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Government Code: Section 1236 – Internal Auditing



Government Code Title 1, Division 4, Chapter 1, Article 8, Section 1236:

(a) All city, county, city and county, and district employees that conduct audits or that conduct audit activities of those respective agencies shall conduct their work under the general and specific standards prescribed by the Institute of Internal Auditors (IIA) or the Government Auditing Standards issued by the Comptroller General of the United States"



Internal Audit Charter



1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing

- Formal document that defines the internal audit activity's purpose, authority, and responsibility,
- Establishes the internal audit activity's position within the organization, including the nature of functional reporting relationships with the Board of Supervisors and the Budget Committee;
- Authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- Requesting Board approval of IAD's Internal Audit Charter (Attachment A).

Auditor Controller Internal Audit Policy and Operations Manual



2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing

- Comprehensive document that governs the internal audit activities within the Auditor-Controller's Division. (Attachment B)
- Designed to ensure alignment with the IIA' Professional Practices Framework and Generally Accepted Government Auditing Standards by way of specific reference.

Fiscal year 2018/19 Internal Audit Plan



2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing

- The internal audit plan covers the remainder of the fiscal year 2018/19. (Attachment C) Contains three documents;
 - ✓ A schedule of budgeted hours illustrating planned audit and non-audit activities. It also shows the planned work load distribution among internal audit resources.
 - ✓ A schedule delineating the timing and duration of each audit assigned to the Internal Audit Division.
 - ✓ As schedule listing audits to be completed by external audit resources, their due dates, and related expenditures.

Fiscal year 2018/19 Internal Audit Plan Continued



2010 – Planning

2010.A1 – *The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.*

2010.A2 – *The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.*

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- County-wide Risk Assessment is scheduled to begin in January 2019 with the goal of being completed by March 2019 in preparation for the fiscal year 2019-20 Budget as required by the County's Internal Audit Policy.
- Given limited resources of the IAD, we recommend submitting an RFP to obtain external consulting resources.
 - Will enable timely completion
 - Ensure we get proper coverage
- One time event with estimated cost not to exceed \$50,000
- Going forward the Risk Assessment will be monitored and updated, subject to Board approval, by the Internal Audit Division.

Internal Audit Tools



2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – *The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*

2500.C1 – *The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.*

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- Requesting funding allocation for the procurement of customary audit tools designed to assist IAD in planning, documenting, analyzing and reporting on the status of completed and in-progress audit, and non-audit, engagements, as well as, monitor corrective action items resulting from audit recommendations.
- Initial cost are approximately \$7,400 and includes working paper software licenses and corresponding training for two employees. Annual future cost of licensing and customer support are estimated to be \$3,600.

Audit Committee Standards – Gap Analysis



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

- IIA's specific guidance surrounding the establishment of an Audit Committee (Attachment D.1). Many of the elements contained in the guidance are missing from existing Budget Committee roles and responsibilities.
- Performed detailed analysis comparing recommended guidance to existing policies and procedures and identified significant and substantial gaps. (Attachment D.3) Prepared an Executive Summary highlighting gaps considered substantial and warranting serious consideration. (Attachment D.2)
- The Board/Budget Committee should consider enhancing existing policies and procedures to be in conformity with professional standards/best practices. We recommend adopting an Audit Committee Charter completely separate from the existing Budget Committee's Roles and Responsibilities. In this way, the roles and responsibilities bestowed on the Committee will be complete, clearly delineated, and focused on governance, risk and internal controls activities required of an Audit Committee. To facilitate this process, we prepared an Audit Committee Charter template (Attachment D.4) and Supplemental (Attachments D.5) containing recommended criteria.

Questions

