



OFFICE OF THE CITY AUDITOR CITY OF AUSTIN

AUDIT GUIDE



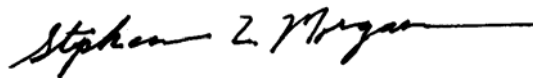
SECOND EDITION, 2005

FOREWARD

To meet demands for a more responsive and cost-effective government, elected officials of the City Council need relevant, reliable, and timely performance information. The Office of the City Auditor's role is to provide such information, in support of mayoral and Council decision making and in the interest of management accountability for meeting citizen expectations.

To meet the obligations of this critical role, OCA staff can look to this Audit Guide as a tool for achieving high quality, on-time projects and related reports. The guide should be used in conjunction with audit process policies and "Yellow Book" standards. Used often, this guide should enhance project planning, directing, and control for the Auditor-in-Charge, or project manager, and the Assistant City Auditor managing the audit team. All auditors, furthermore, are encouraged to use this manual and seek additional assistance as needed, related to steps or skills in the audit process. Guide contents are organized roughly in the order of a project schedule, by phases of a standard audit.

The Guide is a broad statement of auditor responsibilities on audit teams, with emphasis on project management and the role of the project manager, or Auditor-in-Charge. Within this context, I strongly encourage team members to review their roles and OCA expectations and to seek opportunities for development within the scope afforded by each project.

A handwritten signature in black ink, reading "Stephen L. Morgan", followed by a horizontal line that ends in a vertical tick mark on the right side.

Stephen L. Morgan
City Auditor
City of Austin

August 2005

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GOVERNMENT AUDITING STANDARDS

(All phases)

All audit work of the Office of the City Auditor must comply with the auditing standards promulgated by the Office of the Comptroller General of the United States. Those standards are commonly known as the “Yellow Book” or generally accepted government auditing standards (GAGAS).

Though auditors should be familiar with all chapters in the “Yellow Book,” the primary chapters of importance for work in our office are:

- General Standards,
- Field Work Standards for Performance Audits, and
- Reporting Standards for Performance Audits.

Two important things to note in the standards are that work is to be adequately planned and staff is to be adequately supervised. Most of this Guide addresses these points.

The General Standards state that each audit office should have an internal quality control system. This includes having policies and procedures to guide and standardize audit work and having an external quality control review every three years. Our office uses the National Association of Local Government Auditors peer reviewer service. To ensure that our audits meet the standards, project management checklists are similar to those used by peer review teams in a quality review.

Each OCA audit must include, at the conclusion of the objectives, scope and methodology section, a statement to the effect that the audit was conducted according to these standards.

Resource: 2003 Revision, *Government Auditing Standards*, “The Yellow Book”, Comptroller General of the United States

AUDITOR INDEPENDENCE

(Pre-survey Phase)

The first general standard of government auditing states that the audit organization and the individual auditor should be free both in fact and appearance from personal, external, and organizational impairments to independence. Using guidance in the Government Auditing Standards (3.03-3.26) on these types of impairments, auditors should evaluate their independence as related to the audit objectives. A discussion with the AIC or ACA is warranted if there are any concerns about actual or perceived independence impairments.

Once independence is confirmed, the team auditor should sign the Independence Statement. This completed document is filed in the Administration binder.

Resource: Audit e-file

AUDIT e-File AND TIME ACCOUNTING SYSTEM (TAS)

(All phases)

Audit e-File

Automated forms, checklists, example documents, and reference materials are available for many project outputs and standard work papers. This Guide repeatedly refers the reader to these files. The file path, at time of publication, for these resources is **G:\Common\Audit e-File**. Folders within the Audit e-File are organized by standard phases of an audit project, corresponding to the organization of this Guide.

Forms and read-only templates include, for example:

- Independence Statement
- Correspondence letter head and memoranda formats
- Binder checklists
- Audit process flow chart for use at entrance conference

For published reports, the following templates fulfill layout requirements:

- Action Summary
- Cover page
- Management Action Plan

Appraisal forms, used office-wide, are in related folders within the Common folder.

Time Accounting System (TAS)

Team members must log their time to OCA's internal time accounting system, TAS, per time keeping policies, and the TAS User's Guide.

This system is a valuable tool for the AIC, providing a number of project management reports reflecting actual direct hours by project, project phase, and employee for example. Overhead hours are excluded from these reports. Note that OCA staff are accountable for direct and overhead hours: project status reports presented at Audit and Finance Committee include direct and additional hours accrued to individual projects as overhead.

AUDIT DOCUMENTATION

(All Phases)

According to the Government Auditing Standards, audit documentation – or workpapers - serves three purposes. Audit documentation

1. contains the principal support for the auditors' report.
2. aids the auditors in conducting and supervising the audit.
3. allows for the review of audit quality by providing the reviewer written documentation of the evidence supporting the auditors' significant conclusions and judgments.

Specifically, documentation should be relevant to the audit objectives and scope. Extraneous information that is gathered during the audit that is not related to the objectives or the findings and does not serve a specific purpose should be eliminated.

The team should try to use the “findings model” as a conceptual framework to continuously filter and analyze information collected during the audit beginning on “day one.” (See **Audit Findings**.) For example, an auditor may conclude that the team has identified criteria, an existing condition, and/or an effect or operational risk related to objectives.

Basic documentation elements include:

- Header: Audit project number, and audit title
- Footer: Dated 'Prepared by', dated 'Reviewed by', page numbers, and index number
- Body: Title of work paper
 - Date, if an interview
 - Names and titles of people involved (for interviews)
 - Clearly stated purpose
 - Auditor conclusions
 - Action items flowing from conclusions [optional]
 - Methodology (for spread sheets and surveys)
 - Source documents, or name and title where relevant
 - Results/information gathered

The auditor-in-charge (AIC) should review all documentation prepared by other team members. Alternatively, the AIC may choose a team member competent to perform the first level of review; this can be useful in cases where the team is composed of more than one senior auditor or wherever team members' development plans call for opportunities to review/supervise others' work.

The supervising Assistant City Auditor (ACA) should review documentation prepared by the AIC. Alternatively, the ACA may choose a competent team member to perform this review. The AIC should facilitate the ACA's real time review of workpapers which present key issues, irrespective of the preparing auditor. At a minimum, the ACA will review: the project budget and schedule, the survey and fieldwork plans, SRPs, report outlines, draft and final reports, and binders. It is recommended that the team develop an expectation for turn-around time on workpaper review.

Auditor-prepared audit documentation may be kept as electronic records rather than hard copies. In that case, supervisory review should be conducted, and evidence of review preserved online. After the completion of the audit, the electronic audit documentation may be burned to a CD and included in the project binders as the record of work done.

Resource: 1. *Reference Manual: Preparation of Work Papers*, Office of the City Auditor

INDEXING AUDIT DOCUMENTATION

(All phases)

An indexing system standard is an important tool to an internal reviewer and to peer reviewers. The *Reference Manual: Preparation of Work Papers* establishes a required indexing system as follows.

Administration Binder(s)	A100 – A999
Survey Binder(s)	S100 – S999
Fieldwork Binder(s)	F100 – F999
Report Binder(s)	R100 – R999

Each work paper must have a unique index number. Index numbers should be in red pencil at the bottom right corner of the page. Use of red pencil should be limited to the index numbers and cross-references.

After audit documentation has been indexed and more material related to a specific work paper is received, it can be inserted behind that work paper and numbered with a two-digit decimal. If you receive information related to F100, the inserted pages would be indexed by F100.01, F100.02, etc.

In addition, key documents will always be assigned specific index numbers. For instance, the Independence Statement will always be A105, the engagement letter A106, the survey results package S101, and the cross-referenced report R102. Templates for binder tables of contents with the specific number assignments can be found in the Audit e-File.

Resource: *Reference Manual: Preparation of Work Papers*.

BINDERS

(All phases)

The team should place audit documentation into binders as early as possible. Electronic work papers will alternatively be kept on, and filed as, CDs and should be organized according to the same scheme as hard copy binders. Binders fall into four categories: administration, survey, fieldwork, and report. For smaller projects, binders may be combined.

In the administration (admin) binder(s), file the following audit documentation.

- Admin binder checklist
- Binder table of contents
- External communication, such as engagement letter and entrance conference materials and write-up
- Team and internal management communication (substantive ones)
- Index to project binders
- Requirements such as the Independence Statement, Approved Project Plans
- Time report from TAS showing final, actual hours spent on the project
- Audit and Finance Committee presentation, Committee minutes, and any press releases resulting from the project
- Copy of final bound report

In survey binder(s), file the following audit documentation

- Survey binder checklist
- Binder table of contents
- Survey and pre-survey audit documentation, grouped by sub-objective, department, or other logical scheme.

In fieldwork binder(s), file the following audit documentation

- Fieldwork binder checklist
- Binder table of contents
- Fieldwork audit documentation, grouped by sub-objective, or other conceptual basis.

In report binder(s), file the following documentation

- Report binder checklist
- Binder table of contents
- Draft report outlines with review notes
- Report outline
- Draft reports with review notes
- Final, cross-referenced report

Landscape pages should be filed in landscape orientation and folded to 8½". Double-sided work papers are permissible, as long as each side of a page is numbered separately and cross-referencing can be accomplished legibly.

The AIC should review binders for conformance with OCA policies giving review notes to team members.

Resource: 1. *Reference Manual: Preparation of Work Papers*
 2. Audit e-File

PROJECT COMMUNICATION (All phases)

External

Basic requirements are

- Pre-survey phase – entrance conference
- Survey and fieldwork phases – at a minimum, a “mid-point” conference
- Report phase – exit conferences

In addition to basic requirements, the AIC should schedule and hold briefings with auditee management regarding emerging issues and findings throughout each phase of the audit, depending upon the sensitivity of the subject matter or on an as-requested basis. One way to ensure continuous communication is to hold monthly briefings with management, an option typically offered to management during the entrance conference. Line management should also be informed of emerging issues. Such an approach helps to reduce the degree of adverse reaction of management at the end of the audit and supports a “no surprises” ethic. Audit teams should also take the initiative to notify ACMs of any significant emerging issues, and not rely on management to do so.

HINT: When an auditor hears of or comes across something they think is a problem, an issue, or evidence of any non-conformance to audit criteria, this is the time to point the problem out to management. Auditors can prevent wasted time and miscommunication by bringing issues up on the spot and hearing management’s or staff’s explanations. Waiting until the report draft, auditors frequently run the risk of having to do extra work to confirm or rule out explanations for diverging conditions and criteria.

Choosing the appropriate method of external communication requires balancing the need for efficiency, immediacy and effectiveness, and sensitivity to difficult or controversial issues. In this way, auditors should evaluate whether e-mail, voice telephone call, or face-to-face meetings are most suitable. In general, the more controversial, sensitive, or complex the issue is, the more emphasis that should be placed on face-to-face meetings. Auditors should not take the easy way out! Meeting with the auditee helps to establish effective relationships.

Internal

The team should brief OCA management immediately in the event of encountering personal or scope impairments or inter-office issues arise.

Basic requirements are

- Survey phase’s **Decision Point**
- Report phase briefing, on the content on the **Report Outline**
- Audit and Finance Committee presentation rehearsal

PRE-SURVEY

The pre-survey phase is the time for initial planning based on preliminary objectives for the audit that were approved in the Annual Service Plan. Steps should include:

- identifying inherent risks related to the preliminary objectives,
- preliminary rating of inherent risks (ratings must be completed by close of survey phase*), and
- developing work tasks to gather information related to the highest rated inherent risks.

The highest rated risks should be those that could cause the entity to have the highest exposure to negative events.

While that audit team is not expected to articulate all inherent risks prior to performing survey phase steps, risk identification should begin 'up front'. The team should also establish whether or not clear criteria related to management control of these risks is already established. If so, the team can test more risks, narrow the scope of tests, or shorten survey plan. If not, time must be spent establishing whether measurable criteria exist.

The pre-survey phase ends with the development by the audit team and approval by the supervising ACA of the survey plan.

Documentation related to planning the pre-survey phase should be placed in the survey binders.

* Rating of inherent risks can take place before the development of the survey plan or may be part of the survey plan. Rating the risks before the survey plan is developed brings focus to the survey plan and reduces the amount of work that must be done during the survey phase, but usually increases the time required for the pre-survey phase. Alternately the rating of risks can be part of the survey phase work. Tasks that will help the auditor team rate risks are presented under the description of the Survey Plan in this material.

DEVELOPMENT OPPORTUNITIES

During the pre-survey phase, the Auditor in Charge and team members have several important tasks to perform.

Project Management

The AIC should:

- Obtain budgeted hours from the Annual Service Plan for the complete project,
- Estimate the number of hours and calendar days required for the survey phase and adjust budget for overhead hours,
- Develop a survey work plan, and
- Supervise, coach, and help other team members accomplish their assignments.

(continued)

External Communication

The audit team should:

- Send notification of the audit to the appropriate Assistant City Manager and Department Director of the entity to be audited, and to other appropriate external parties, and
- Conduct an entrance conference.

NOTIFICATION OF AUDIT

(Pre-survey Phase)

The initial contact between the audit team and staff of the audited entity(s) should be a memorandum to department director(s) notifying them of the proposed audit work. It is important that the audit staff refrains from contacting auditee staff before management has been informed that an audit has begun.

The memorandum, or engagement letter, should contain the following information:

- The reason the audit is to be done, such as part of the approved work plan for the year or upon special request of the Council.
- The name of the auditor-in-charge with a contact phone number.
- When the entity will be contacted to set a date for an entrance conference.
- Signature of the Assistant City Auditor in charge of the project or the City Auditor's designee.
- Copy (cc:) the Assistant City Manager with oversight authority or the City Manager if there is no assigned Assistant City Manager.

The audited entity could be a vendor/contractor or an entity outside the City's organization. In these cases, the notification should be a memorandum to the principal of that organization and should contain:

- The reason that their organization is included in the audit.
- The type of information that the organization will be asked to provide.
- The name of the auditor-in-charge with a contact phone number.
- That contact will be made to set up an entrance conference.
- The signature of the Assistant City Auditor in charge of the project or the City Auditor's designee.
- Copy (cc) the City Manager's Office.

A copy of the engagement letter should be placed in the administrative work paper binder.

Resource: Audit e-file template

PROJECT BUDGET AND SCHEDULE

(Pre-survey Phase)

The executive management team is responsible for estimating the total budget for each project. The AIC of a project should consult with the responsible ACA to obtain the estimated budget and gain an understanding of expected objectives and scope used to develop the budget.

The AIC should use the estimated budget to:

- Distribute budgeted hours to cover all phases: pre-survey, survey, fieldwork, reporting, and closeout,
- Develop a detailed schedule through to survey results package (SRP) approval or approval of the objective(s), scope, and methodology for fieldwork,
- Detail the expected hours per week and total hours for each person assigned to the project. For each full-time auditor, budget 70 to 75 percent of his or her hours as productive time.

This document should be part of the survey plan and placed in the administration binder. An additional detailed schedule will be developed for the fieldwork, reporting, and closeout stages after survey is complete.

In the event of anticipated or actual budget overruns, AICs need to develop alternative strategies or contingency plans that reflect the priority of specific audit tasks and objectives. Top priority items should be considered for completion, and projected needs for overrun hours developed for management team review. In the event budgeted hours will not be needed, AICs should keep the ACA informed of expected under-runs, so that these hours may be considered when addressing resource needs for completing the OCA annual plan.

Hours should be loaded into TAS. Through the life of the project, the AIC should routinely track actual hours against budgeted hours; the ACA will regularly report these variances to the management team.

Resource: Audit e-File includes a detailed example

ENTRANCE CONFERENCE

(Pre-survey Phase)

An entrance conference is for the purpose of introducing management of the audited entity to the audit team, stating the preliminary objectives and time frame of the audit, discussing the audit process and philosophy, and identifying the auditee's preferred departmental liaison for the duration of survey and fieldwork.

- The AIC should schedule an entrance conference with management of the audited entity (City management or external management), generally after sending the audit notification memo and before conducting any audit work that requires interaction with staff of the audited entity. Entrance conference participants should generally include the appropriate department director and/or designees and chosen staff, all members of the audit team, and the supervising ACA. The AIC should check with the ACA to determine other people to include. If the scope of the audit changes or expands to departments or entities outside the City not originally included in the entrance conference, the AIC should hold additional entrance meetings with management of those entities.
- The AIC will ensure that an audit-briefing packet is distributed to the attendees from the audited entity at the entrance conference. This packet should include, at a minimum, an agenda of the meeting, a brief professional profile of the audit team members, and the simple flow chart of the audit process. A copy of the flow chart can be found in the Audit e-File.

During the meeting, the audit team will present the preliminary objectives of the audit, describe the time frame for the audit work, review our audit process and philosophy, arrange for a departmental liaison, and arrange for a workspace for the auditors, if needed. The audit team should also inform management about audit standard requirements related to fraud and data reliability.

An effective use of the entrance conference is for the audit team to facilitate the meeting as a "focus group" to identify risks. If this approach is used, the ACA or AIC should begin the segment by explaining concepts of "risk," how risk identification will be used to develop audit objectives, and initiating discussion with examples of relevant risks. Input from the focus group should be documented. Auditors must establish if any prior work has been done by auditors or consultants, and should inquire as to any major changes in the areas to be audited.

The AIC should assign responsibility for documenting entrance conferences and ensure placement of the write-ups with distributed materials in the administrative work paper binder.

When limited audit work is scheduled in a peripherally associated department, the AIC should notify the department director and explain what work is going to be done and give the director a choice of whether to have a formal entrance conference or not.

INHERENT RISK IDENTIFICATION

(Pre-survey Phase)

The term inherent risk refers to characteristics (events, circumstances, or actions) of an organization that may adversely impact the organization or keep the organization from achieving its mission, assuming the absence of mitigating controls. Auditors can identify many of these risks through thorough research of the business area before going into the field; management should also be asked about the inherent risks associated with their business area.

From the earliest phase of the audit, auditors must understand the concept of and evaluation methods for inherent risk. (Identifying inherent risk is the first stage in the overall risk assessment process, and is later complimented with vulnerability assessment. See ***Risk and Vulnerability Assessment.***) In the pre-survey and survey phases, the team must

- Identify the inherent risks associated with the function being audited.
- Rate each risk according to pre-determined risk factors. Once the inherent risks have been identified, the audit team should establish criteria (risk factors) to judge the extent of potential harm of each risk to the organization's well being. Rating is based on impact – the team must determine whether to rate the risk based on impact to the City as a whole or on impact to the audited unit only. Each individual risk should be rated according to an established scale to indicate the level of risk (numerical or simply high, medium or low). See Exhibit II.
- Prioritize and rank the risks by rating.

Types of inherent risk can involve:

- Citizen/client/customer dissatisfaction, negative publicity, and damage to the organization's reputation.
- Non-alignment of organization's/program's mission, objectives, strategies, and performance measures.
- Failure to accomplish established performance expectations for operations/programs.
- Poor performance trends or incorrect/incomplete performance reporting.
- Inappropriate management policy and/or decision-making process.
- Failure to adhere to organizational policies, plans, and procedures,
- Failure to comply with relevant laws and regulations.
- An erroneous decision from using incorrect, untimely, incomplete, or otherwise unreliable information.
- Erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.
- Failure to adequately safeguard assets.
- Unrealized or lost revenue.
- Acquiring resources uneconomically or using them inefficiently or ineffectively.
- Business interruption (lack of business continuity planning).
- Conflicts of interest or fraud.

Inherent risks can be classified in many different ways. Three preferred methods of classification are: the program/activity mapping model categories of input, process, output, and outcome (IPOO), the performance expectations/accountability model in Exhibit I, which includes IPOO, and the COSO-ERM model. When working with a pre-determined audit objective, the scope of inherent risks that need to be assessed can be narrower and should correspond directly with the specific audit objective.

--**Program/Activity Mapping Model.** Most useful for describing condition, i.e., what we are auditing in terms of inputs, processes, outputs, and outcomes. The model is also useful in describing cause of not achieving expected outputs/outcomes when we discover a situation where management has not established a cause and effect relationship between inputs, processes, outputs, and outcomes.

--**Performance Expectations/Accountability Model.** The model is most useful for establishing performance expectations to be used as criteria to evaluate management and program performance. It is also useful for establishing and assessing the universe of inherent risk every government manager and program faces.

--**COSO/ERM.** The model is most useful in identifying the systems and processes which could be used to achieve optimum management of government programs. These systems and processes can be viewed as controls to reduce inherent risk to a level where residual risk (vulnerability) is acceptable of at least measurable. The vulnerabilities can be prioritized and factored into development and selection of high impact audit objectives.

Other models include OCA's annual risk assessment model, RAFs, COBIT. Models can be used not only to describe reality but to analyze and interpret the overwhelming amount of data and evidence that is available.

EXHIBIT I
Performance Accountability Model

COMPONENTS OF PERFORMANCE			
MISSION PERFORMANCE GOALS			
INPUT ECONOMY	PROCESS EFFICIENCY	OUTPUT EFFECTIVENESS	OUTCOME EFFECTIVENESS
<ul style="list-style-type: none"> ◆ Financial <ul style="list-style-type: none"> - amount - timing ◆ Physical <ul style="list-style-type: none"> - quantity - quality - timing - price 	<ul style="list-style-type: none"> ◆ Productivity ◆ Unit Cost ◆ Operating Ratios 	<ul style="list-style-type: none"> ◆ Quantity ◆ Quality <ul style="list-style-type: none"> - products - delivery ◆ Timeliness ◆ Price/Cost 	<ul style="list-style-type: none"> ◆ Mission & Outcome Goal Achievement ◆ Financial Viability ◆ Cost-Benefit ◆ Cost-Effectiveness
CROSSCUTTING PERFORMANCE GOALS			
<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px; display: flex; justify-content: space-between;"> ←----- Compliance with Laws and Regulations -----> </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px; display: flex; justify-content: space-between;"> ←----- resources - Safeguarding - infrastructure -----> </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px; display: flex; justify-content: space-between;"> ←----- Continuous Improvement -----> </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px; display: flex; justify-content: space-between;"> ←----- Reliability, Validity, & Availability of Information -----> </div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px; display: flex; justify-content: space-between;"> ←----- Underlying Values -----> </div> <div style="border: 1px solid black; padding: 5px; display: flex; justify-content: space-between;"> ←----- Customer and Stakeholder Satisfaction -----> </div>			

EXHIBIT II
Example Inherent Risk Rating Criteria

DEFINITIONS FOR SCORING	LOW IMPACT	MEDIUM IMPACT	HIGH IMPACT
<p>Dollar Losses: Potential created by the function for liability, loss, opportunity cost, or costs due to inefficient operations</p>	<ul style="list-style-type: none"> • < \$50,000 <p>or</p> <ul style="list-style-type: none"> • Potential loss less than y% of total program operating costs 	<ul style="list-style-type: none"> • >\$50,000-\$200,000 <p>or</p> <ul style="list-style-type: none"> • Potential loss between x% and y% of total program operating costs 	<ul style="list-style-type: none"> • >\$200,000 <p>or</p> <ul style="list-style-type: none"> • Potential loss of greater than or equal to x% of total program operating costs
<p>Complexity: Degree to which function involves multiple processes or organizational units, or is conducted at multiple locations, or requires sophisticated information sources to carry out effectively</p>	<ul style="list-style-type: none"> • Operations confined to one site • Two or fewer large divisions involved • Single or linear processes with little or no interconnections • Decisions based on single data source 	<ul style="list-style-type: none"> • Operations centralized with broad applicability • Three or four large divisions • Multiple processes primarily linear • Decisions based on data from few data sources 	<ul style="list-style-type: none"> • Citywide operations • Five or more large divisions • Multiple processes must interrelate • Decisions based on multiple data sources • Departments cross ACM lines, requiring ACM coordination
<p>Impact on Achieving Objectives: Extent to which function relates causally to achievement of organizational goals and objectives</p>	<ul style="list-style-type: none"> • Indirect or no impact on achieving organization's objectives <p>or</p> <ul style="list-style-type: none"> • Least important goals not met 	<ul style="list-style-type: none"> • Some impact on achieving organization's objectives <p>or</p> <ul style="list-style-type: none"> • Less important goals not met 	<ul style="list-style-type: none"> • Direct or high impact on achieving organization's objectives <p>or</p> <ul style="list-style-type: none"> • Mission and /or most important goals unmet

This is not a comprehensive list. Other risk rating criteria may be more appropriate.

Reference: *COSO Enterprise Risk Management – Integrated Framework*, and related documents including ERM summary presentation (Taylor Dudley)

SURVEY PLAN

(Pre-survey Phase)

During the pre-survey phase (the initial phase of audit work), the audit team should produce a work plan, which identifies tasks that will help establish the vulnerability of identified (high and medium) inherent risks. At this stage in an audit, the work plan and a schedule for achievement of the plan is called a survey plan, and includes the ***Project Budget and Schedule***.

- The audit team should identify the tasks that will help determine with more certainty the control risk or vulnerability (how likely is a risk to occur) of each inherent risk identified with a high or medium rating. If risks were not all identified and ranked during pre-survey, this step is to be completed in the survey phase. This typically consists of indentifying and performing preliminary tests of management controls.
- The Assistant City Auditor in charge of the project must approve the Survey Plan and copies of the approved document should be forwarded to the City Auditor and Deputy for comment. **Final approval by the City Auditor or their designee** is required. At a minimum the City Auditor reviews the objectives and scope presented in the survey plan.
- The original signed copy of the Survey Plan should be included in the administration or survey binder for the project. Changes to the Survey Plan during the course of the work should be documented in a separate work paper and placed next to the original document in the admin or survey binder.

During the preparation of the Survey Plan, the audit team should refer to the Quality Review for the Survey Plan.

In determining the vulnerability of the identified high inherent risks, the following information may be helpful.

- Previous audits/studies and/or investigations of the auditee
- Financial information such as budget information, actual expenses and revenues, the Comprehensive Annual Financial Report (CAFR)
- Performance reports
- Auditee mission, goals, objectives, and measures
- Identification of key data sources (program databases, files, etc.), i.e. sources for performance measurements
- Interviews with knowledgeable personnel
- Surveys of benchmarks or best practices
- Laws, regulations, ordinances
- Physical observations and “walkthroughs” of processes, equipment, and facilities
- Flow charts of processes
- Review of policies and procedures

The audit team should plan steps to detect violations of contract or grant provisions and of laws and regulations pertaining to the audit subject, to test the adequacy and reliability of the data, and to detect fraud. (See ***Data Reliability Testing*** and ***Fraud Detection***.) The last step in the survey plan should be the approval of the objectives, scope, and methodology for the fieldwork.

Resources: Format for Survey Plan and Quality Review for the Survey Plan, Audit e-File .

SURVEY

The survey phase of an audit is an opportunity to plan and take further steps needed for gathering information about potential risks, and to determine the likelihood that such risks might occur. This includes risk of violations of contract or grant requirements, or laws and regulations, of fraud, and of unreliable data critical to fulfilling audit objectives. In addition, this phase is used to identify objective(s) (and sub objectives), scope, and methodology for upcoming fieldwork.

The team may identify additional risks during this data-gathering time, such as process control risks, or earlier identified inherent risks might become more significant. In this case, the risks should be documented in the risk assessment matrix.

At all times during survey work, the team should be actively identifying and documenting finding elements in its work papers. These elements can be compiled as preliminary findings (PRAFs) by the close of survey phase. PRAFs assist in identifying and rating risks and selecting the objectives for fieldwork. These documents should be included in the survey binders.

After evidence has been gathered to assess the vulnerability of the identified risks, the project team should complete the risk assessment matrix by rating the vulnerabilities against identified criteria. Those risks and vulnerabilities that receive high rankings should be considered in formulating the objectives and scope for testing.

After potential objective(s), scope, and methodology have been selected for the testing phase, the team briefs the DCA and CA. **The CA must approve the objectives, scope, and methodologies for the fieldwork phase.**

If the objective(s) of the audit has been pre-determined, the team should develop the methodology for achieving the objective(s) and set the scope. The risk and vulnerability assessment, which is used to identify the objective(s), will be limited to conditions related to the pre-determined objective.

DEVELOPMENT OPPORTUNITIES

The audit team has many opportunities to demonstrate the following performance attributes.

Internal Behavior

- Team meetings should be used to share information and ideas with everyone of the team.
- Show respect for others and their ideas.
- Team members are to work cooperatively with each other, overcoming any barriers to productive teamwork.
- Communication with OCA management provides an opportunity for each team member to demonstrate good internal communication.
- Discuss each team member's expectations of others on the team.

(continued)

External Behavior

- Effective communication with auditee management helps to remove barriers to project work.
- All team members shall demonstrate professional behavior in all interactions with individuals outside of OCA.
- Keep auditee management informed on issues such as the risk/vulnerability assessment and the potential audit objectives.

Project Management

- The AIC directs and coaches team members and monitors assigned tasks to accomplish quality, on-time work.
- Acknowledge potential time delays and make necessary modifications to tasks in order to stay within the budgeted hours and calendar time allowed.
- Monitor team progress (by ACA) to ensure quality outputs.

Technical Capacity

- Accept the challenge of taking on tasks that will broaden and strengthen capabilities and skills.
- OCA staff with specific skills should identify opportunities to coach or assist their own or other teams, when applicable. For example, one can coach on the best way to extract information from a database.

Conceptualization:

- Developing the fieldwork plan is an excellent opportunity for an auditor to demonstrate the ability to conceptualize by developing appropriate tasks to meet the audit objectives.

Outputs

- Produce a quality SRP or documents required by the CA at the end of the survey phase. For projects with pre-determined objective(s), completion of a thorough methodology.
- Produce concise, informative briefing documents for Council, City management, and OCA management.

PRELIMINARY RECORDS OF AUDIT FINDINGS

(Survey Phase)

During the survey phase of an audit, auditors usually become aware of process or control conditions that might adversely influence the performance of the organization/program under audit. The auditors should document these conditions and at a later time decide whether to create a preliminary record of audit finding (PRAF), having the following components:

- criteria,
- potential condition,
- potential effect (optional), and
- potential cause (optional).

Because PRAFs are preliminary findings, they should be brief and are best limited to one or two pages (preferably one page). Comparing the criteria to a condition that is untested or speculative is what makes these preliminary findings.

At the end of the survey phase, these PRAFs will help the audit team rate vulnerabilities and identify areas within the organization/program that will become the focus of the objectives, scope, and methodology for fieldwork.

In some cases, the PRAFs will demonstrate that the audit should not proceed into fieldwork, and a decision is made to either stop the project or to write a survey report.

PRAFs should be documented in the survey binders.

Resource: *Understanding Records of Audit Findings and Preliminary Records of Audit Finding* (a training manual), Colleen Waring

FRAUD DETECTION

(Survey Phase)

Beginning with the 2003 edition, the Yellow Book began requiring both financial and performance auditors of government activities to take specific steps designed to detect fraud. The Yellow Book defines fraud as “a type of illegal act involving the obtaining of something of value through willful misrepresentation.” Chapter 7 of the standards requires that, “in planning the audit, auditors should consider risks due to fraud that could significantly affect their audit objectives and the results of their audit.” In addition, based on that risk assessment, auditors should “design and perform procedures to provide reasonable assurance of detecting significant instances of illegal acts or violations of provisions of contracts or grant agreements.” To meet these requirements, OCA auditors are expected to ask fraud-related questions during audit interviews as well as conduct analytical work designed to detect red-flags that indicate that fraud may be occurring. Because these audit steps can be construed as intrusive or accusatory, during the entrance conference the audit team should inform management, in advance, that such steps will be taken in accordance with government auditing requirements.

Before such steps are planned or taken, the AIC should schedule a meeting with investigators from the City Auditor’s Integrity Unit (CAIU). For this meeting, auditors should be prepared to brief CAIU staff on the preliminary objectives and scope of the project as well as basic operations performed by the audited entity. Auditors should consult with investigators for assistance in determining the following:

- Fraud risks for the City functions
- Common red flags of fraud for City functions affected by the audit objectives
- Prior fraud-related findings related to the audited area
- Types of fraud questions to ask
- Who and in what order to conduct interviews
- Techniques and procedures most effective for detecting fraud in the audited area

A summary of this meeting should be filed in the workpapers, as “Assessment of Fraud Risk”.

Throughout the engagement, auditors should be alert to situations or transactions that could be indicative of possible illegal acts. In the event a possible fraud is detected or reported, standards require that an extension of audit steps must be performed to determine if illegal acts were committed. Because OCA has a designated unit for addressing fraud, waste, and abuse (unlike many audit shops), if fraud is suspected or alleged, auditors should immediately contact CAIU staff to determine what steps to take next. These steps might include an extension of audit steps by the audit team with CAIU guidance or temporary audit work stoppage in the involved area until CAIU conducts further steps to confirm or disprove the existence of illegal acts.

The Yellow Book requires that relevant information on *identified* fraud should be included in the audit report; however, in such cases, auditors should consult with the CAIU to determine what information can be released at the time of the report.

Resources: *Government Auditing Standards, Sections 7.17-7.27*, GAO
The Fraud Examiners Manual, Association of Certified Fraud Examiners
Common Red Flags to Fraud, City Auditor’s Integrity Unit
Interview questions for Management and Others about the Risk of Fraud Violations and Abuse, City Auditor’s Integrity Unit

DATA RELIABILITY TESTING

(Survey Phase)

Audit Standards require auditors to obtain sufficient, competent, and relevant evidence that computer-processed data are valid and reliable when these data are significant to audit findings.

Data are reliable when they are

- (1) complete - they contain all of the data elements and records needed for the audit and
- (2) accurate - they reflect the data entered at the source or, if available, in the source documents).

The ultimate goal in determining data reliability is to answer the following question:

For our engagement, can we use the data to answer the audit objective?

The audit team must perform and document steps taken to fulfill the requirements. The audit team has three options.

1. Relying on the work of others; that is, if officials of the audited entity or other auditors have worked to establish the validity and reliability of the data or the effectiveness of the controls over the system that produced the data, and the results of such work are current, one may be able to rely on that work, if it can be verified.
2. Determining the validity and reliability of computer-processed data by performing direct tests of the data, e.g., for accuracy, completeness, etc.
3. Testing the effectiveness of general and application controls over the computer-processed data. This step would include elements of #2.

Typically, an evaluation of system controls (#3) reaches beyond the scope of an audit and the Service Plan as a whole. When this resource-intensive approach would be inefficient to evaluate data reliability, the audit team should document this.

The key, according to the Government Accountability Office (GAO), is to limit the review to evaluating *the specific controls* that can *most directly* affect the reliability of the data in question as relevant to audit objectives.

In the event that an audit does not proceed past the survey phase, there may be no chance to fully verify data reliability. In this case, exhibits in the survey report should be labeled as based on unaudited data.

Resources: *Reliability Testing of Computer Processed Data.ppt*, Gus Rodriguez
Testing the Reliability of Computer Processed Data, GAO (revised October 2002).

RISK AND VULNERABILITY ASSESSMENT

(Survey Phase)

While conducting survey work, auditors may find additional areas that might have a negative impact on an organization's efforts to achieve its mission and provide services to its customers. (See *Inherent Risk Identification* for background.) These additional risks should be documented along with the inherent risks already identified. Also during survey, auditors are looking for evidence to establish the vulnerability for each high/medium risk identified, or in some cases, a more limited approach would rate vulnerability only for risks that have been rated as having the greatest impact. Vulnerability is also known by the term "control risk."

Vulnerability is the likelihood that a risk might actually occur and have a negative impact on the organization. For instance, lack of internal controls or poor controls would likely result in a high vulnerability rating. However, if management has developed mitigating strategies for reacting to the risk, the vulnerability might result in a low rating. See *Survey Plan* for sources of information that can be used to rate vulnerability.

The AIC is responsible for ensuring that the rationale for rating of the vulnerability is incorporated into the documentation of the audit.

To determine the level of risk and vulnerability, the following questions should be asked:

- Risk: How severe is the potential effect of the risk? The worse the effect is, the greater the risk.
- Vulnerability: Given the controls in place, what is the probability that the risk will occur? The higher the probability is, the higher the vulnerability.

If data cannot be tested due to timing, lack of expertise, or other reasonable explanation, the 'default' rating for the corresponding vulnerability is 'M'/medium.

After the assessment has been completed and documented, analysis should be done as to which risks should be examined more closely during fieldwork. Usually, these are the risks rated at a high level with medium to high vulnerability. However, there is no set rule on choosing the risks to be audited and ultimately, the choice is left up to the auditor(s), to be reviewed by OCA management. The risks chosen are then framed as objectives (and/or sub objectives). In the event that no risk is deemed worthy of audit, the audit team and OCA management have reached a **Decision Point**.

If management agrees that the risk poses a high threat to the organization and that changes will be made to mitigate the risk, then the audit team may not need to proceed with detailed testing. However, the audit team should still document and report each significant finding in the final report.

**EXHIBIT III
Example Vulnerability Rating Criteria**

HIGH (H)	MEDIUM (M)	LOW (L)
Management has little understanding and places little emphasis on good controls	Management has some understanding and places some emphasis on good controls	Management understands and places emphasis on good controls
Minimum controls	Minimum to good controls	Good to excellent controls

**EXHIBIT IV
Example Risk/Vulnerability
Assessment Matrix**

Risk	Risk Rating	Control	Vulnerability Rating	Notes

AUDIT OBJECTIVES IDENTIFICATION

(Survey Phase)

An objective is a description of what the audit is to accomplish. Sub-objectives are used to define specific elements of work that should be done to achieve the objectives.

Precise objectives provide clear direction for planning, fieldwork, and reporting. They leave no doubt about what the auditor expects (or is asked) to find out about the issue or issues selected for audit fieldwork. Starting an audit assignment with precise objectives can save many hours of wading through and accumulating reams of data that ultimately turn out to be useless to the audit and never end up in the report. Also conducting an audit without a clear sense of direction increases the possibility that the audit will not achieve the intended purpose. (Raaum and Morgan, *Performance Auditing: A Measurement Approach*)

Some characteristics of a good audit objective are:

- Precisely word as a question(s) or as “To determine whether ---“ statement(s),
- Eliminate ambiguous, abstract, or unfocused terms,
- Clearly identify the auditee,
- State the performance aspect under review and elements of finding to be obtained.

The following is a list of potential performance audit objectives that was developed in this office. Determine whether and how

1. consumption of financial resources can be reduced (economy).
2. consumption of physical resources can be reduced (economy).
3. unit costs can be reduced (efficiency).
4. productivity can be improved (efficiency).
5. quantity of outputs can be increased (output effectiveness).
6. quality of outputs can be improved (output effectiveness).
7. timeliness of outputs can be improved (output effectiveness).
8. price of outputs can be reduced (output effectiveness).
9. expected outcomes are or are not being achieved (outcome effectiveness).
10. expected outcomes are or are not being achieved (outcome effectiveness).
11. the entity is and will continue to be financially viable (outcome effectiveness).
12. Determine the cost benefit or cost effectiveness of the department, program, or activity (outcome effectiveness).
13. the entity complies with high risk laws and regulations..
14. information is being used to support decision-making.
15. use of information to improve decision-making is effective.
16. management’s organizational values are appropriate including integrity, honesty, and diversity.

Also,

17. Determine whether customer and stakeholder satisfaction is high enough.
18. Determine how to increase customer and stakeholder satisfaction.
19. organizational resources (tangible or intangible assets) are properly safeguarded.
20. Determine whether information is reliable (includes accuracy, timeliness, completeness, and consistency).
21. Determine whether information is valid/relevant.
22. Determine whether information is available.
23. Determine how to improve reliability, validity, and availability of information.

Resource: *Developing Objectives, Scope, and Methodology* (a training manual), Colleen Waring.

AUDIT SCOPE IDENTIFICATION

(Survey Phase)

The scope is the depth and coverage of the audit work conducted to accomplish the audit objectives. It defines the boundaries imposed on the work. This includes the time period to be covered, data sources, and organizational units whose functions and documentation will be included in the audit.

In defining the scope, the audit team should consider the following constraints: time, cost, and staff experience. A balance among these factors is necessary to achieve a product of value that will have a positive impact on the department, program, or activity being audited.

The audit team needs to carefully examine actual hours and calendar days needed to complete the audit objectives within the stated scope. If the time to complete the objectives is greater than the assigned budget, the team should reconsider whether the number of objectives should be reduced or the scope should be changed.

Project cost is directly related to the time expended by the audit team and the methodologies chosen for data collection and analysis. It is also greatly affected by the experience of the assigned staff.

The scope statement should include description of any items that were specifically excluded from the scope and the reasons for exclusion, if such exclusions could affect the reviewer's or the user's ultimate interpretation of the results. Such constraints might be data limitations, impairments, or time constraints.

Auditors should determine whether data from previous years is still relevant to the operation that will be audited. In some cases, data may be available but not applicable to the current organizational structure.

Resource: *Developing Objectives, Scope, and Methodology* (a training manual), Colleen Waring

AUDIT METHODOLOGIES IDENTIFICATION

(Survey Phase)

An audit methodology statement identifies the strategies employed in evidence gathering, data analysis, and interpretation techniques used to accomplish the audit objectives. Methodologies can be quantitative or qualitative.

The methodology should cite all major sources of criteria used to assess performance of the audited entity.

Listed below are types of methodologies grouped by type of evidence to ensure that audit findings are adequately supported by sufficient, relevant, and complete evidence.

- Analytical – computations, comparisons, separation of information into components, ratio analysis, trends, statistical analysis, gap analysis, benchmarking
- Documentary – created information, written documents (i.e. contracts, invoices, etc.), electronic records, management information on performance
- Physical – inspection or observation of people, property, or events, physical samples, photographs,
- Testimonial – interviews in person or by phone, data collection/survey instruments, questionnaires, best practices,

Other methodologies cross over the boundaries of evidence type. One such quantitative methodology is content analysis. Content analysis would be used when comparing content of more than one document, i.e. state law to city ordinance, or comparing the decision trail of two years of minutes of a specific board. Other methodologies that are useful include:

- Focus groups to obtain information on program delivery or reaction to a proposed intervention,
- Expert advice to offer opinions on aspects of the audit,
- Case studies to highlight an example program of high performance, or
- Flow charts of process flow diagrams to examine internal controls.

The audit team should assess whether a chosen methodology is the most efficient one based on amount of time necessary for collection and analysis of data. If the methodology is deemed to be too costly, the audit team should look for another less costly approach. Effective use of licensed software, such as ACL, SPSS, Access, Excel, and ArcView, by auditors is encouraged for efficient analysis of data.

The audit team should include a statement on any sampling techniques used to test reliability of data or used to make projections.

Resource: *Developing Objectives, Scope, and Methodology* (a training manual), Colleen Waring.

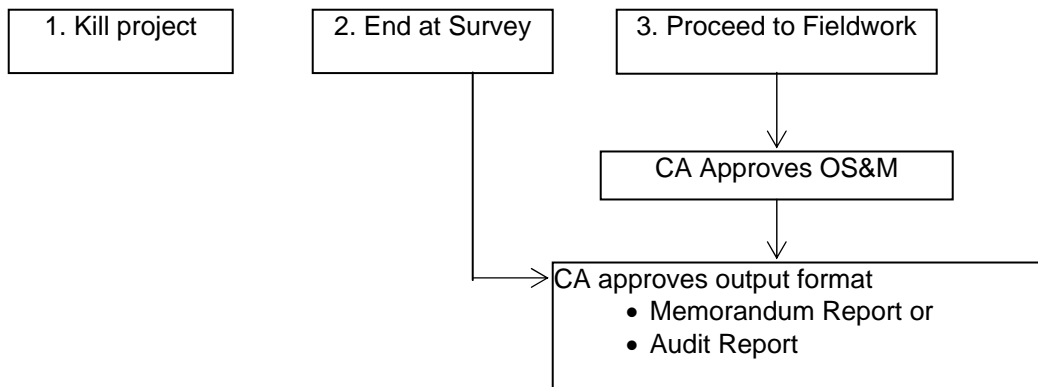
DECISION POINT: OCA MANAGEMENT BRIEFING

(Survey Phase)

The AIC should schedule a team briefing with the City Auditor and Deputy City Auditor, to be held following completion of the risk and vulnerability matrix, to brief on the results of the assessment and the preliminary findings. The AIC should provide a one-page briefing outline, in order to facilitate discussion. The following should be covered:

1. Potential audit objectives, obtained from ranking inherent risks and assessing vulnerability or a discussion of the lack of auditable units.
2. The associated scope and methodologies
3. Justification of preferred fieldwork objectives, scope, and methodologies.

This is the time when a basic 'go/no go' decision is made. There are essentially three options.



If the decision is to proceed into fieldwork, then an additional outcome of this briefing is the **CA's verbal approval** of a specific O, S, & M.

The team is responsible for documenting the discussions taking place in, and any conclusions ensuing from, this mid-point briefing. The workpaper should be filed in the administration binder.

COMMUNICATION WITH AUDITEE: MID POINT CONFERENCE

(Survey Phase)

At the close of survey phase, the audit team should schedule a briefing (mid-point conference) with auditee executive management to discuss potential audit objectives or to inform them of the fieldwork objective(s) if selected and approved. As in all external briefings, an outline of key findings and messages is strongly recommended.

Similarly, line management should be informed of emerging issues. Such an approach helps to reduce the potential for disagreement at the end of the audit and supports a 'no surprises' ethic.

The AIC is responsible for documenting the discussions held in this conference. The workpaper is filed in the administration binder.

FIELDWORK PLAN

(Survey Phase)

Following approval of the SRP and audit objective(s), the audit team will develop a detailed fieldwork plan designed to achieve objectives.

A written fieldwork plan provides:

- a description of the audit scope, objectives, and methodologies;
- a breakdown of the objectives into sub-objectives for establishing finding elements;
- an expansion of the methodologies into a series of tasks or steps to gather sufficient and relevant information from which to draw conclusions related to each objective,
- sampling plans where relevant
- a documentation of assignments,
- a schedule to achieve the work within budget, and
- a basis for supervision of the work, budget, and schedule.

Following a fieldwork plan, auditors must first be able to establish criteria and to measure condition. Only once these steps are completed, and sufficient contrast found, should further audit steps be taken to establish the effect of the discrepancy (the 'so what') between a condition and criteria, the cause of the condition, and formulation of do-able, affordable recommendations.

Fieldwork plans generally have an outline format and are as concise as possible, yet specific enough with sufficient detail for the auditor to follow. Columns are included for the assigned auditor; initials of the auditor who completed the step; the date completed; and page reference to audit documentation. The supervising ACA reviews for content and do-ability and approves the fieldwork plan. The City Auditor or their designee should also approve the plan.

Modification of the fieldwork plan can and frequently does occur throughout the fieldwork phase as objectives or scope change because of the availability or character of the evidence gathered. Significant changes to the fieldwork plan are changes that eliminate or add steps, expand, reduce, or impair the scope of the audit, or change an objective of the audit. Such changes to the fieldwork plan should be documented separately and approved by the supervising ACA. In addition, the ACA and AIC will discuss the rationale for elimination of an objective with the CA or DCA.

The Auditor-in-Charge is responsible for ensuring that the fieldwork plan is in place, followed, and revised as needed and that all parts of the plan are assigned. The ACA should supervise all work and review any changes to the plan.

Document the progress of the audit work, by referencing documentation to the applicable audit task in the audit program. As the fieldwork for each audit objective is completed, summarize the audit work performed, develop a record of audit finding (RAF) and include conclusions in audit documentation.

At this time the team should develop a detailed schedule to fit the remaining budget hours and calendar time before the Audit and Finance Committee meeting.

Resource: Audit e-File for format of a fieldwork plan and the extended schedule/budget.

FIELDWORK

During this phase of an audit, the audit team is responsible for collecting, testing, and documenting information relevant to the audit objectives. In addition, the audit team analyzes and interprets the collected information and uses its judgment and experience to develop the audit findings.

DEVELOPMENT OPPORTUNITIES

The fieldwork phase is an excellent forum for the audit team to demonstrate the following performance attributes.

External Behavior

- Employ effective listening and interviewing skills.
- Maintain objectivity and professionalism during all contacts with external stakeholders.

Project Management

- Manage assigned tasks within time set forth in project schedule and budgeted hours.
- Proportionate delegation of tasks and prompt review team outputs by AIC.
- Ongoing performance and behavior feedback among team members, AIC, and ACA.
- Effective barrier removal (overcoming problems) to ensure completion of project.
- Audit documentation prepared and reviewed as assignments are completed.

Technical Capacity

- Adhere to appropriate standards for fieldwork and reporting.
- Use sampling techniques.
- Continue data collection and analyses using computer software as often and extensively as is practical. Produce quality documentation.
- Stay within the scope of the audit and collect only information that is relevant to the audit objectives.
- Coach others on sampling, analysis techniques, or new methodologies.

Conceptualization

- Draft summaries that show the common themes or factors among findings.
- Recognize and draft together under a theme disparate elements or findings.

Outputs

- Ensure the accuracy of all numeric facts and calculated numbers
- Produce quality audit documentation that is relevant, competent, and sufficient.

SAMPLE JUSTIFICATION MEMOS

(Fieldwork Phase)

Audit sampling is the application of an audit procedure to less than 100 percent of the items within the population. For some types of testing, sampling may be unnecessary because the use of computer software allows the audit team to test 100 percent of the population. In addition, computer software can be used to reduce the size of the population sampled by selecting data with certain characteristics.

To satisfy the professional standards for audit documentation, an audit team should prepare a Sample Justification Memo (SJM) for each audit sample. This document should contain all relevant information pertaining to sample selection and sample application. Proper documentation allows others to repeat the process, if necessary. Additionally, the work paper serves as evidence of due professional care.

The audit team is responsible for preparing the Sample Justification Memo, carrying out the sampling plan, and properly recording the correct information.

There are two parts to a SJM, one related to the planning of the sample, the other to performing and evaluating the results of the sample. See the flowchart in this section for planning and drawing the sample.

Planning

- The audit team determines that sampling is an appropriate procedure to use to achieve a specific audit objective and chooses the appropriate sampling technique.
- Taking a test sample provides support for the sampling factors chosen, i.e. expected misstatement, sampling risk.

Population size affects sampling. Typically if there are less than 100 records you will have to test almost all the records to get a statistically significant population. In those instances, its often worthwhile to either go ahead and test the whole universe OR to use judgmental sampling instead.

Performing and Evaluating

- The audit team should record the method used to select the sample, detailing any problems encountered in the selection of sample items.
- Work paper(s) should be prepared that document the steps taken in testing the sample. Even in the case where 100 percent of the population is tested using computer software, the team should document all test runs and their results. This documentation should be clear to other auditors who may perform follow-up duties and need to repeat the testing on new data.
- A work paper should explain how the sample results might be projected to the population as a whole when statistical sampling procedures are applied or should state what conclusions can be drawn from a non-statistical sample.

Definitions

Statistical Sampling. Two criteria must be met for a sampling procedure to be classified as statistical:

- The sampling units must be randomly selected.
- The sampling units must be quantitatively evaluated through the application of probability theory. Results of the sample are projected to the population.

Non-statistical (Judgmental) Sampling. If either criterion of statistical sampling is absent, the sampling procedure is non-statistical, and the auditor determines sample size and evaluates results on the basis of subjective audit experience. Conclusions may be drawn from the results of the sample only about the sample population.

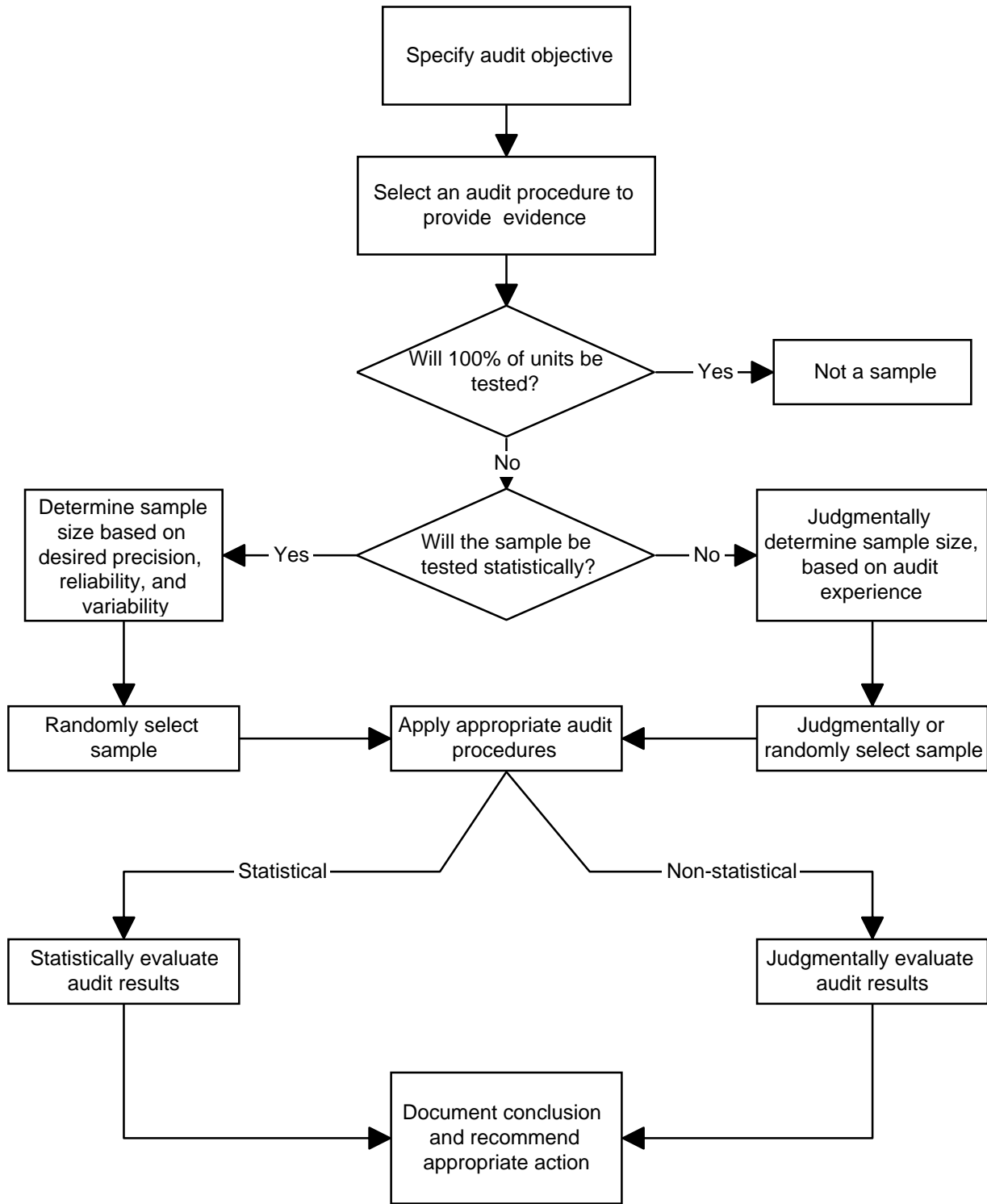
Example: Population 500; a sample of 50 is chosen by some means other than random selection. Of the sample, 45 are yellow and 5 are red. A true statement is “95 percent of the 50 items were yellow.” It is *not accurate* to say that 95 percent of the population of 500 is yellow.

Even if the sample of 50 is chosen randomly from the 500, but probability theory is not applied, the conclusion can still not be projected to the whole population.

Directed (Judgment) Sampling. In this case, examples are chosen to support the auditor’s contention that a system is weak. The results are not projected to the population as a whole.

Resources: 1. State Auditor’s Office: Statistical Tool Box
 2. *Audit Sampling*, AICPA

**EXHIBIT V
Sampling Decisions
Flow Chart**



AUDIT FINDINGS

(Fieldwork Phase)

An audit finding is an interpretation of information collected during the audit and can be either a positive or negative finding. Audit findings must be within the scope of the audit and be related to an objective of the audit. On approval by the ACA and DCA, the scope of the audit may be adjusted to accommodate findings that lie outside the original scope.

Discuss potential findings with the auditee at the time they are developed as well as after review by the AIC to ensure that the auditor has a complete and accurate understanding of the particular situation. If the auditee reports mitigating circumstances, additional causes, or other constraints, the auditor is responsible for verifying these issues before considering the finding to be complete.

If the auditor has reason to suspect possible illegal acts, the auditor does not discuss these findings with the auditee. See OCA's "Identification of Possible Illegal Acts" policy. Audit team members are responsible for reporting findings that might involve illegal acts to the auditor-in-charge and ACA or DCA responsible for the project.

RECORDS OF AUDIT FINDINGS (RAFTs)

Records of audit findings (RAFTs) should be developed and recorded for inclusion in audit documentation. RAFTs are used to summarize evidence collected during the fieldwork phase of the audit. RAFTs provide a mechanism for management review of the audit work and for apprising the auditee about potential audit report messages.

A RAFT usually has four elements; the number of elements depends on the manner in which the objective(s) of the audit is stated. These elements are:

(1) Criteria. The criteria is a description of the basis for comparison, i.e. laws and regulations, good business practices, industry standards, established procedures etc.; "how it should be."

(2) Condition. The condition is a description of the state of affairs in the area being audited; "how it is." A deficiency finding occurs when the condition contrasts with the criteria in a way that creates the risk or actual occurrence of negative consequences. A positive finding occurs when the condition meets the criteria.

(3) Effect. The effect is a description or analysis of what has resulted or what may be expected from the condition. The effect can often be provided as the quantification of the impact of the variance of the condition from the criteria.

(4) Cause. The cause is a description of what brought the condition into existence. Sometimes it is either not possible or not feasible for the audit team to determine cause.

Other elements that may be included in a RAFT are:

Related Audit Objective: Because all RAFTs should have a relationship to one of the audit objectives, the development of the RAFT can include a statement of the related objective.

Recommendation. A recommendation is a description of what changes need to be implemented to correct an unsatisfactory condition. The recommendation should be feasible and reduce the risk associated with the condition. Typically, the

recommendation should be worded to have an impact on the cause, if the cause has been identified.

Notes/Discussion. Sometimes additional information may be necessary for clarity.

The format discussed in this document is related to descriptive, normative, and traditional findings.

Include RAFs as part of the summary of audit documentation in the fieldwork binders, as is appropriate. The audit team is responsible for cross-referencing the RAFs to the supporting audit documentation. The AIC is responsible for the review of the RAFs and the supporting documentation.

- Resources:
1. *Performance Auditing: A Measurement Approach*, Chapter 5, Raaum & Morgan: A discussion of descriptive, normative, traditional, and impact findings.
 2. *Understanding Records of Audit Findings and Preliminary Records of Audit Finding* (a training manual), Colleen Waring

SUMMARIES

(Fieldwork Phase)

Summaries are high-level work papers that are used for various purposes. Their use may be required by the AIC or the ACA in charge of a project. Uses include:

1. To capture relevant facts related to an audit objective taken from a long document.
2. To summarize several documents that relate to an audit objective and an audit finding.
3. To explain a spreadsheet.
4. To use as a first step to the report outline and report draft.

In many cases summaries and fully developed RAFs can serve the same purpose. In other cases, when RAFs are brief, a summary may be needed to further develop the findings or to combine multiple RAFs that address a major theme.

COMMUNICATION WITH AUDITEE

(Fieldwork Phase)

The AIC should continue to schedule and hold briefings with auditee management or with the auditee's designated departmental liaison regarding emerging findings throughout fieldwork or on an as-requested basis. Similarly, line management should be informed of emerging findings. Auditors should voice concerns to CMO and Council only after apprising auditee management of these concerns.

REPORTING

During the reporting phase, the audit team will create and obtain approval of an outline for the report, draft the report, formulate audit recommendations, negotiate points of difference with the auditee, incorporate review by OCA management and comments by auditee management, ensure the report is cross referenced, and prepare and present the findings to the Audit and Finance Committee.

DEVELOPMENT OPPORTUNITIES

This phase is an excellent forum for the audit team to demonstrate the following performance attributes:

External Communication

- Quality creation of the report outline and the draft report requiring only minor revisions.
- Concise and complete briefings with City Council members, as required.
- Creation and presentation of a summary of the audit findings to the Audit and Finance Committee.

Conceptualization

- Presentation of the audit findings in the report to reach different audiences.
- Coordinating the audit findings in the report outline to obtain the greatest impact.
- Providing summaries that accurately and concisely characterize the key points and principal issues being discussed, clearly and accurately delineating relationships among multiple findings where a genuine relationship exists.

Project Management

- Forecasting the appropriate amount of time to draft the report and get management's comments and response.
- Holding fast to the projected schedule for the report and presentation to the Audit and Finance Committee (AFC).
- Prompt AIC review of the work by team members and of the draft outline and report and ACA review of work performed by the AIC.
- Supervising the development of the outline and report by the AIC and in turn by the ACA.
- Completing cross-referencing before the AFC presentation.

Outputs

- Quality outline that needs few revisions (substance and organization).
- Quality draft report with recommendations that needs few revisions.
- Quality presentation that needs few revisions.

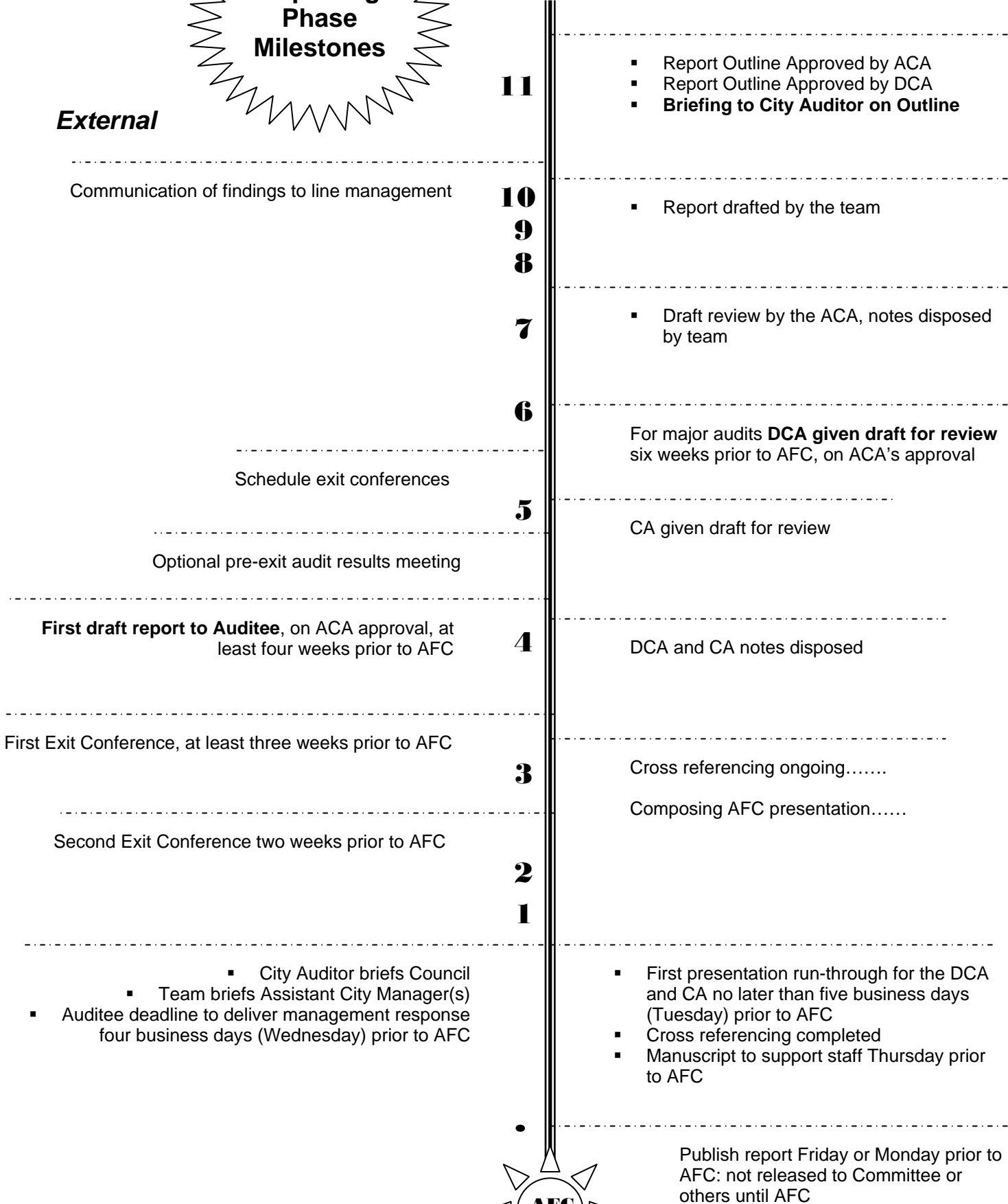
Outcomes

- Completion of project within budgeted hours and scheduled calendar time.
- Management begins improvements in response to the report.
- Council uses the information in making decisions.



Internal

External



REPORT OUTLINE and CITY AUDITOR BRIEFING

(Reporting Phase)

For each audit project that requires a written report, the AIC in collaboration with the audit team should prepare a thorough outline of headlines and messages arising from the audit findings. The outline should also include the support for these statements, namely the associated criteria, conditions, causes and/or effects of the findings. This stage of the audit process requires significant conceptualization. The major parts of the outline should include:

- Background information that gives context to the audit findings.
- Objective(s), Scope, and Methodology.
- Headlines and messages – a discussion of the significant audit findings in response to the objectives. Depending on the length and number of findings, the body of the report may be organized into chapters.

The outline is reviewed and approved by the ACA and submitted to the DCA for comment. Comments should be incorporated.

Once the outline is reviewed by the ACA, the AIC should schedule a **briefing with the City Auditor** to discuss the outline and acquire CA approval.

The report outline can be initially developed at the beginning of fieldwork based on the objectives. Then during fieldwork, the audit team adds details to the outline and revises messages as work is completed. If this is the approach used, the audit team should ensure that the outline is modified if additional findings are brought to light during the work or if the proposed work cannot be completed.

Outline formatting should match audit report formatting: fonts and type sizes, capitals or lower case letters should be congruent with their relevant sections of the report.

Resources: Style Manual

DRAFT REPORT

(Reporting Phase)

Auditors should write reports in the deductive style and in the active voice. The audit team is responsible for consulting the OCA Style Manual (or prior reports) for formatting style and other report standards. The draft report should meet these standards. If an audit team wants to present its report in an alternate format, the AIC should discuss this with and get approval from the City Auditor. Using the approved outline, the audit team prepares a written report.

It is the AIC's responsibility to ensure that the findings are supported with dialogue sufficient to facilitate the reader's understanding of the findings' importance. However, the report should be as concise as is practical. In addition, the AIC should look for and correct any occurrences of repetition. Duplicate messages usually occur when findings have not been organized effectively. Conclusions and recommendations should flow logically from the facts in the finding. Appendices may be appropriate as a way to support findings or present additional information.

First line review of the completed report is the responsibility of the AIC. The ACA should next review the draft, and document his or her comments, which should be disposed by the audit team.

Once all ACA notes are disposed, the DCA is the next level of review. The DCA should receive a copy of the draft report for review **six weeks prior to Audit and Finance Committee** to ensure sufficient time for turn around. Short memos may be forwarded to the DCA four weeks prior to AFC.

Ideally, once the DCA's comments are cleared, a report draft is given to the City Auditor for review and comment before transmittal to management. Depending on the report size and time constraints, the DCA and CA can be given the report to review simultaneously. This compromise is only acceptable for small or very late reports.

After all substantive, internal review comments by the ACA, DCA and CA have been included in the draft report, the AIC sends a copy to auditee management for review and sets up two exit conferences to discuss their comments. The report is finalized following the last exit conference.

The team should be cognizant of the auditee's need for sufficient time to review and respond to the report. The first draft copy of a major audit should be transmitted to the auditee **at least four weeks prior to Audit and Finance Committee**. It is acceptable to deliver the recommendations separately, although these too may warrant negotiation. The final report draft should be transmitted to the auditee **at least three weeks prior to the AFC** leaving sufficient time for the official response.

Resource: Style Manual

CROSS-REFERENCED REPORT

(Reporting Phase)

Cross-referencing the draft report is essential to ensure that all facts can be supported with sufficient evidence. Cross-referencing of the draft report and any subsequent changes to content made as a result of review must be completed and reviewed by the AIC and ACA **before the final report is published**. The AIC is responsible for checking that the report is supported by sufficient, competent and relevant evidence prior to publication and presentation to the Audit and Finance Committee, and the ACA is responsible for spot checking that review.

Specifically, the audit team should ensure that all numbers and dates are accurate. In many cases it is advisable to re-perform any calculations to ensure that the methodology is repeatable and no errors were made in the original work. The audit team should cross-reference all significant facts, supporting audit work that may be disputed by the auditee or City management. As a general rule, one need not cross reference each word in the report verbatim.

For tables, spreadsheets, and graphs, it is advisable to have an exact copy in audit documentation and complete the cross-referencing at the work paper level. This ensures there is a single reference to the report.

Incoming cross-references in the report should be placed in the left margin in red pencil. Corresponding outgoing references should be placed in the vicinity of the actual reference in the right margin of the workpaper in red pencil.

It is frequently necessary to use “assertion,” “conclusion,” or “summary” for the reference. When deciding which term to use, ask the following questions.

- Assertion – is the statement a judgment made by the auditor?
- Conclusion – is the statement supported by evidence? (effect, condition, or cause)
- Summary – is content easily located in body below? (charge paragraphs)

The audit team should place the review notes with the cross-referenced report in the report binder.

Resource: *Reference Manual: Preparation of Work Papers*

RECOMMENDATIONS

(Reporting Phase)

Carefully constructed recommendations should result in action on the part of the auditee organization. Recommendations should call for actions that address the cause of the condition if the audit team has effectively established the cause. Otherwise the recommendations should address the condition. In most cases, recommendations should focus on the improvements or desired outcome to be achieved, rather than on specific strategies and methods to achieve the outcome. However, some recommendations may need to address specific tasks or strategies, depending on the nature of the findings involved or the level of management expertise relevant to the topic. Management has the prerogative to choose which strategy to follow in implementing the recommendations. But, auditors can provide suggested strategies that might help the auditee better understand what the auditors think will address the recommendation.

Recommendations should be action-oriented, specific, feasible, practical, and cost effective. In addition, they should stand alone, i.e., by reading the recommendation, the auditee should know why and what action is sought. Also the recommendation should be addressed to the individual position in the organization that is responsible for ensuring that the recommendation is implemented, that is, the position with the authority to ensure action is taken and completed.

Auditors should discuss with the auditee the recommendations in context with the findings in order to

- ensure that the auditee knows what condition/cause needs to be addressed,
- determine if there might be unanticipated consequences resulting from implementing the recommendation,
- determine if the recommendation will be cost-effective and feasible (as required by standards) to implement, and
- identify any other concerns or issues auditees may have with the do-ability or effectiveness of the recommendation.

Resources: 1. Government Accounting Office, GA/OP-9.2.1, *How to Get Action on Audit Recommendations*.
2. *Writing Effective Recommendations* (a training manual), Colleen Waring.

EXIT CONFERENCES WITH AUDITEE MANAGEMENT and CITY MANAGER'S OFFICE

(Reporting Phase)

The audit team should schedule exit conferences with auditee management to discuss the audit findings and recommendations. For large or sensitive projects, the audit team should hold two conferences, one to discuss facts of the report, and one for the tone. The first of these conferences should be held no later than **three weeks prior** to Audit and Finance Committee, giving the auditee about one week to review the content of the draft report. A meeting may be held prior to releasing the draft report to the auditee, to focus on the substance of the findings, or audit results.

The audit team should have discussed individual findings with line management to ensure that the details are accurate and that the recommendations are feasible.

If scheduling two exit conferences, it is advisable to confine the first to addressing management's questions or concerns about facts. After any agreed-upon changes are made, due to the introduction of new evidence at the first exit conference, a subsequent exit conference should be held to discuss any remaining disputes over the tone of the report, audit recommendations, management's response, and the final schedule for responding and reporting to the Audit and Finance Committee.

When the draft report has been submitted to the auditee, the audit team should schedule an exit conference with the Assistant City Manager who oversees that department or function, unless the audited department reports to the City Council. The purpose of this meeting is to share the results of the audit, and if necessary, discuss or negotiate the auditee department response. Note that significant or sensitive findings should be brought to the ACM's attention in a timely fashion, before the final reporting stage. Inform the Assistant City Manager of the schedule for presentation to the Audit and Finance Committee at this briefing.

MANAGEMENT RESPONSE AND ACTION PLAN

(Reporting Phase)

Auditee management is expected to respond to the audit findings generally in a management letter, and to each individual audit recommendation specifically in an action plan. In addition to the department director, the oversight ACM should sign the management response letter before it is sent to OCA, while auditee management prepares an action plan for implementing the recommendations with which they concur. These two documents are incorporated in the final report.

The AIC should advise auditee management of the response process and requirements, and communicate the required elements of management's Action Plan for implementing those recommendations with which they concurred. It is advisable to require the management response be delivered to OCA **no less than four business days** (the Wednesday) prior to Audit and Finance Committee.

The Action Plan is a document designed to hold auditees accountable for implementing recommendations, in the event of follow up activities or audits.

In the event of issues surrounding the management response substance or timing, the City Auditor will decide whether to go forward or reschedule presentation at the scheduled Audit and Finance Committee.

Resource: Management Response Guidelines, Audit e-file
Management Action Plan Layout, Audit e-file

PRESENTATION TO AUDIT AND FINANCE COMMITTEE

(Reporting Phase)

The audit team prepares a Power Point presentation of the audit findings for the Audit and Finance Committee. The presentation is broadcast on Channel 6 so the audit team should be especially careful about the visual, as well as the verbal, aspects of the presentation. Copies of the presentation slides without the spoken text should be available for distribution at the AFC. In addition, the audit team will be expected to field questions from the Committee and answer those questions in the most diplomatic manner. The team should anticipate questions that the Committee may ask.

AICs should schedule at least one rehearsal of their presentation before the CA and DCA. This first rehearsal needs to be held no later than **one week prior** to the scheduled Audit and Finance Committee meeting, leaving time for a second run-through with the CA and DCA.

COUNCIL MEMBER BRIEFINGS

(Report Phase)

One week prior to the AFC meeting, the CA has standing meetings scheduled with most Council Members. The AIC and/or the ACA should determine if briefing documents and/or personal attendance at the Council briefings are required. Briefing documents should be a concise summary of the Audit and Finance Committee presentation.

FINAL REPORT

(Reporting Phase)

The final report incorporates all feasible comments from the auditee and City management, as well as the review comments of OCA management. Any changes based on comments must be cross referenced. Changes can be cross-referenced in a separate summary document instead of re-referencing the whole report.

A line edit, for grammar, punctuation, and general adherence to OCA Style Manual should be conducted timely, preferably once final comments from the CA and the auditee have been incorporated.

Most final reports have the following parts:

- Cover, bearing front and inside-cover requirements
- City Auditor's transmittal letter
- Council summary
- Action summary (includes audit recommendations)
- Table of contents
- Background/Introduction
- Objectives, Scope, and Methodology
- Audit Findings (may be more than one chapter)
- Appendices (includes management's response)
- Glossary (optional)
- Bibliography (optional)

The AIC should draft the City Auditor's transmittal letter and share it with the City Auditor for approval. Templates for all elements of the report are available in the Audit e-File.

In unusual cases, the final report may address work only through the survey phase, or may be a short (1-5 pages) memorandum report. For a memorandum report, the transmittal letter usually acts as the Council summary, and the action summary and table of contents are not needed.

Likewise, for some follow-up reports, not all report elements are required.

Report production

The AIC should work with support staff, which need several days to prepare the published report for the Audit and Finance Committee. Support staff needs a complete, single electronic copy of the final report, properly formatted **no later than close-of-business** on the Thursday prior to Audit and Finance Committee. The may need to share in production activities if the manuscript is late, or the AFC agenda is full. Original management responses may need to be scanned, to reproduce signatures. This file is formatted for the OCA web site during **Closeout**.

Resource: Style Manual

AUDIT PROJECT CLOSEOUT

At the end of each audit project, the AIC and audit team members have duties that must be completed to close the project. The expectation is that **close out is completed within 40 days** of the Audit and Finance Committee presentation.

1. Report distribution list submitted to OCA support staff?
2. Report posted online?
3. Customer satisfaction survey transmitted to appropriate auditees?
4. NALGA abstract written and submitted?
5. OCA output information, recommendations, and management responses posted to TAS database?
6. Binders reviewed and signed off?
7. Performance appraisals administered?
8. Report archived to server?
9. Binders archived to OCA files?
10. Compliant with records retention schedule?
11. TAS code closed out?

Audit Documentation and Binders

The audit team should review the ***Audit Documentation, Indexing, and Binder*** sections of this guide. Auditors may burn a CD with large files of evidence if necessary, and organize work paper binders for final sign off by the ACA.

The AIC should review all binders. The audit team should complete all binder checklists and clear all review notes made by the AIC. Extraneous information that is gathered during the audit that is not related to the objectives or the findings and does not serve a specific purpose should be eliminated and/or returned to management. Finally, the supervising ACA should do a final check of the documentation. The AIC/team should clear all binder review notes made by the ACA. The ACA must ensure that all project binders are filed in OCA's central files.

Customer Satisfaction Survey

The AIC submits a request to support staff for the preparation of the survey; support staff prepares a link and sends it to the AIC. The AIC distributes the survey link by email to the auditees with a respond-by date. Following the response deadline, support staff send the survey results to the PAS administrator to load into PAS.

Distribution List

The AIC should prepare a list of individuals or organizations that should receive the final report in addition to the standing distribution list, obtain suggested additions or deletions from the ACA and DCA, and give that list to OCA support staff. If federal or state funds are involved, a report should be sent to the relevant oversight organization.

Performance Appraisals

The AIC should give each team member a project appraisal and each team member should give the AIC an upward appraisal. If the team member worked less than 80 hours on the project, the AIC may opt to write a memo to that individual's personnel file regarding performance on the project. In addition, the supervising ACA should give the AIC a project appraisal and the AIC should give the ACA an upward. All such appraisals should use the current OCA appraisal templates. See OCA alternative pay system policies for further guidance.

Resources: Performance appraisal templates, Electronic Documents folder

NALGA Abstract

Audit abstracts should be prepared and submitted for each audit project, after appropriate review, to the National Association of Local Government Auditors (NALGA). Abstracts should be brief, preferably limited to a single page. Most abstracts include office contact information (usually the AIC), audit scope (usually includes objectives), significant findings, new innovative methodologies (not routine methodologies), and limited comments.

See a recent copy of the *Local Government Auditing Quarterly* for current abstract format, audit subject categories, and the NALGA website user identification and password to view further sample abstracts.

TAS Output Recorded

The AIC of the project should provide the support staff member assigned to update the recommendation database with the output information, recommendations, and management's response to each recommendation (concurrence, status, completion date, and statement). The TAS project report titled "Project Output Workpaper" can be used as a template for the information to provide. Once the project output information is in TAS, this report can also be printed and placed in the workpapers to confirm that the information was entered correctly.

Report Archive

The AIC should ensure that the OCA's Web coordinator receives a copy of the report once it has been presented to and accepted by the Audit and Finance Committee. The Web coordinator should also file a complete copy of the report in the electronic archive folder.

TAS Closeout

The ACA should use TAS to request that the project code be closed after all work is completed (and all internal comp-time used).

Lessons learned [optional]

Either the team can have a formal or informal session in which they share what worked well on the project and what did not work well or the team members could respond to an on-line survey about the successes and failures of the project.

In addition to the above-mentioned items, the AIC should generally hold a celebration for the audit team in which individual contributions are recognized and challenges or obstacles are memorialized as lessons learned.

Document retention

Auditors should clean out old project documents from the server, emails and their PC desktops in accordance with the OCA records control schedule.

Resource: OCA's *Local Government Records Control Schedule* (COA City Clerk)