



Auditor - Controller Internal Audit Manual

SUTTER COUNTY INTERNAL AUDIT MANUAL

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All exhibits included at the end of the audit manual are as follows:

- Exhibit 1 – Auditor’s Org Chart
- Exhibit 2 – Staff report and Board of Supervisor Certified Minute Order of Internal Audit Program
- Exhibit 3 – Board of Supervisor Staff Report Internal Audit Program, County Administrator Office and Auditor-Controller
- Exhibit 4 – IPPF Code of Ethics
- Exhibit 5 – Senior Internal Auditor Job Specifications
- Exhibit 6 – Audit Data Sheet
- Exhibit 7 – Risk & Techniques Matrix
- Exhibit 8 – Entrance Meeting Memo
- Exhibit 9 – IA Quality Assurance Guidelines
- Exhibit 10 – Lead Sheet – Planning
- Exhibit 11 – Internal Audit Quality Survey
- Exhibit 12 – Audit Issues Report
- Exhibit 13 – Follow-up Work Performed

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Section 1.0 – General

1.1 Introduction

This manual documents the standards, guidelines, techniques, policies, and procedures for the Sutter County Internal Audit division (referred to as IA). It addresses day-to-day issues encountered in performing internal audit tasks and establishes common audit procedures. This manual is intended to be an evolving document subject to revisions as audit standards, guidelines, techniques, policies, and procedures are refined over time.

The manual is not intended to deter independent thinking on the part of the internal auditor. It provides guidance to ensure standard audit approaches, ensure an acceptable level of performance, and help provide assurance that the final audit product meets established departmental requirements and generally accepted auditing standards. It is intended as a supplement to the experience, knowledge, initiative, and sound judgment of those assigned audit responsibility. A uniform approach to auditing and related documentation improves the review process and assists in more effective and efficient job performance.

The following resources are important to the IA division:

- The United States Government Accountability Office (referred to as GAO) “*Government Auditing Standards*,” (GAS, also known as the Yellow Book) 2011 Revision;
- The Institute of Internal Auditors’ (referred to as IIA) “*International Standards for the Professional Practice of Internal Auditing*” as included in their International Professional Practices Framework (IPPF) January 2011 Revision;
- California Government Code §1236, §1237, §6254(a), §26908.5, and various divisions within Title 2;
- California Senate Bill No. 1452, as amended June 21, 2006.

1.2 Changes

This manual is intended to be an evolving document, which should reflect continuing changes and/or developments of the IA division.

Anyone within IA may submit a proposed change to this manual. The proposal should be in writing, include specific reference to the appropriate section affected, and include rationale for the proposed change. The Auditor-Controller will be responsible for reviewing, approving, and incorporating changes within the appropriate section of the manual.

Section 2.0 – Audit Division

2.1 Internal Audit Overview

The GAO *Yellow Book* 2011 Revision, the IIA's *IPPF*, published in January 2011, and the Senate Bill No. 1452, as amended June 21, 2006, comprise the full range of authoritative guidance for the internal audit profession.

These *guidelines* are to be followed by any internal auditor or contract auditor performing audits or reviews at Sutter County. Justification for deviation from these guidelines should be documented in writing and approved by the Auditor-Controller. Deviation memos are to be included in the workpapers.

2.2 Definitions

AUDIT: A systematic inspection of accounting records, operating procedures, and internal control structures through confirmations, tests, and analysis to determine the accuracy, fairness and general acceptability and conformity with established criteria; to determine whether results are consistent with established objectives and goals and carried out as planned; and to communicate the results to the interested users.

INTERNAL AUDITING: Is an independent, objective assurance and consulting activity designed to add value and improve a department's operations. It helps a department accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

INTERNAL AUDITOR: Is one who independently evaluates: the adequacy and effectiveness of internal controls; the reliability and integrity of financial and operating information; systems, operations, or programs to ensure compliance with policies, plans, budgets, procedures, laws, regulations, and contracts; and the means of safeguarding and verifying assets.

INTERNAL CONTROL REVIEW: In the financial environment, an internal control review is conducted to determine if a department's internal control structure (consisting of the policies and procedures established) provides reasonable assurance that specific department objectives will be achieved. In performance audits, the objectives are to determine if the plans, methods and procedures adopted by management ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

INTERNAL CONTROL STRUCTURE: A department's internal control structure consists of the policies and procedures established to provide reasonable assurance that specific department objectives will be achieved. The internal control structure may include a wide variety of objectives and related policies and procedures, only some of which may be relevant to an audit of financial information or reporting.

SPECIAL REQUEST: An audit, review, or compilation of information conducted by IA that was not previously scheduled on the Annual Audit Plan.

2.3 Department Organization Charts

The organization chart of the IA division is presented in Exhibit 1.

2.4 County Staff Report and Motion

A copy of the IA Staff Report and Board of Supervisor's (BOS) motion can be found in Exhibit 2 and Exhibit 3.

2.5 Code of Ethics

IA employees are members of IIA, and as such are required to follow the IIA Code of Ethics. A copy of the IIA's Code of Ethics is located at Exhibit 4.

2.6 Specific Responsibilities & Goals

Specific responsibilities and goals of the IA division are to:

- Provide members of management with information needed to allow individuals to fulfill their duties and responsibilities;
- Ascertain that systems of internal controls are adequate;
- Ascertain the accuracy and integrity of management financial information;
- Ascertain Sutter County-wide compliance;
- Ascertain compliance with stated laws, regulations, policies, and procedures;
- Look for opportunities to improve efficiency and effectiveness of operations;
- Provide quality service.

2.7 Duties and Responsibilities by Level

The IA division is staffed by personnel in some or all of the following classifications:

- Senior Internal Auditor

The dimensions and responsibilities of this classification are explained in the IA job specifications or job descriptions in Exhibit 5.

Section 3.0 – Administrative Issues

3.1 Introduction

The administrative section of the IA Manual documents the policies and procedures as they relate to personnel issues for employees within the IA division.

3.2 Employment Policies

With respect to employment policies, IA is regulated by the same guidelines as other employees of Sutter County. IA does have a unique requirement, i.e. ensuring all activities provide for independence from the operations of the business. Because of the need for independence, as outlined in the *Standards*, the hiring of individuals with relatives that already work for Sutter County is strongly discouraged. In those instances, where an internal auditor has relatives in a department of Sutter County, that internal auditor will be precluded from conducting audits within that department.

3.3 Personal Conduct

Integrity and Independence

The IA division is positioned within Sutter County in such a manner as to provide for independence from the operations of the County. The IA division reports directly to the Sutter County Auditor-Controller. IA division employees shall not conduct themselves in any manner that would result in a degradation of either individual integrity and independence or the integrity and independence of the IA division.

All internal auditors must abide by the provisions of the *Code of Business Ethics*. Employees within the IA division will be required to review the IPPF Code of Ethics annually and indicate their review on the internal auditor's training log.

All internal auditors are required to submit an updated Conflict of Interest form to the Auditor-Controller if circumstances change in an internal auditor's personal life which may lead to a conflict of interest or the appearance of a conflict of interest.

Behavior and Appearance

The impression given by employees of the IA division is not only a reflection on the individual, but also on the department. Because employees must interface with all levels of management within Sutter County, IA employees are expected to conduct themselves in a professional manner. Each person is expected to exercise good judgment and common sense in their daily activities.

3.4 Time Reporting

Each IA employee is responsible for accurately reporting worked time on a timecard in accordance with Sutter County policy.

Absences

Planned absences shall be scheduled with the Auditor-Controller prior to the absence (if possible).

Compensatory Time

Per Sutter County policy compensatory time (time worked, but not paid) is allowed at Sutter County. It is permissible to “bank” hours worked (with approval) for hours in excess of eight hours in a work day to be taken in the future.

3.5 Internal Auditor and Supervisor Evaluations

Per Sutter County policy all personnel are evaluated and reviewed with the Auditor-Controller and Assistant Auditor-Controller.

3.6 Training

Training and education are essential elements for IA employees in providing a sound basis to function in a professional manner. Both government and IIA auditing standards place responsibility on the audit division to ensure that the audit is conducted by a staff that collectively has the knowledge and skills necessary for the audit to be conducted. Internal auditors should also have a thorough knowledge of the government environment and government auditing relative to the nature of the audit being conducted.

The objectives of the IA Training Program are as follows:

- To provide internal auditors with the knowledge and skills necessary to perform their job responsibilities efficiently and effectively; and

To promote and further enhance participation in professional certification programs (Certified Fraud Examiner, Certified Government Auditing Professional, Certified Internal Auditor, Certified Information Systems Auditor, Certified Public Accountant, etc.) and fulfill the requirements of the GAS and the IIA Standards for the Professional Practice of Internal Auditing. To meet

these goals, IA has a program to ensure that its staff maintains professional proficiency through continued education and training. IA employees are to complete at least 80 hours of continuing professional education (CPE) within the past 2-year period, with at least 20 hours in any 1-year of the past 2-year period and at least 24 of the 80 hours in subjects related to the government environment or government auditing.

The division will maintain documentation of the education and training completed. The internal auditor should retain a copy of the Certificates of Achievement for each class attended.

Training Curriculum:

The training curriculum is based on the internal auditor's responsibilities and level of audit experience. Only those courses that contribute directly to the knowledge and skills needed as an internal auditor will be considered and therefore paid for by the department. Additionally, through the internal auditor's annual evaluation process, specific training courses may be recommended to address any noted performance areas that require improvement. The Auditor-Controller shall work with each internal auditor to determine individual training needs and shall develop a plan of studies. The Auditor-Controller is responsible for establishing and implementing a program to ensure that internal auditors meet the continuing education and training requirements of the division.

3.7 Equipment Accountability

Each internal auditor assigned a computer will be assigned hardware with Asset Tag Numbers, and software with registration numbers. Internal auditors are responsible for maintaining assigned equipment and will be held accountable for its return on termination or transfer from IA.

Section 4.0 - Auditing Concepts

4.1 Introduction

IA has the responsibility to ensure its activities focus on the highest risk areas in order to best assist management. To that end, the concepts used should ensure:

- Identification of key activities of the department;
- Subsequent identification of key risk areas within those activities;
- Independent determination of the condition of the body of internal controls regulating those activities; and
- Providing management with a clear, concise, and accurate representation of findings.

4.2 Audit Risk

In any environment, there is always risk that the internal auditor reaches the wrong conclusion or fails to detect an important control weakness. Audit risk is the uncertainty present that either of these may unknowingly occur. Audit risk is a combination of inherent risk, control risk, and detection risk.

$$\text{Asset Risk} = \text{Inherent Risk} + \text{Control Risk} + \text{Detection Risk}$$

Inherent risk is present just by the nature of the area being audited. For example, a particular area of operations may be fairly complex where it is important that the internal auditor have an in-depth knowledge of the area. Likewise, certain assets (e.g., personal computers) are, by their nature, more susceptible to theft than others (e.g., furniture).

Control risk is the uncertainty that the system of internal controls will not prevent or detect and correct a material error on a timely basis. Detection risk is the uncertainty that a material error will not be detected by the audit procedures as designed. Inherent in both of these risks are limitations that will prevent total elimination of the risk.

The internal auditor (or internal audit team), in establishing the scope and designing the audit tests, must determine the tolerable level of error, i.e., the amount of risk the internal auditor is willing to accept or the amount of error that could exist without causing the audit results to be materially wrong or incomplete. Determining the tolerable level of error requires professional judgment and will have direct bearing on the nature, timing, and extent of the audit procedures to be performed. Thus, it is imperative that senior internal audit staff be involved in the planning process.

4.3 Internal Controls

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following areas:

- Effectiveness and efficiency of operations;
- Reliability of financial reporting;
- Compliance with applicable laws and regulations; and
- Safeguarding assets.

As it applies to financial and *financial* audits:

A department's internal control structure consists of the policies and procedures established to provide reasonable assurance that specific department objectives will be achieved. A control structure consists of three elements:

1. **Control Environment:** The foundation on which everything rests. It is the collective effect of various factors on establishing, enhancing, or mitigating the effectiveness of a department's strategy, specific policies and procedures, and training.
2. **Accounting System:** The methods and records established to identify, assemble, analyze, classify, record, and report a department's transactions and to maintain accountability for the related assets and liabilities.
3. **Control Activities:** In addition to the control environment and accounting system control activities are the actions that management has established to provide reasonable assurance those specific department objectives will be achieved properly and timely.

As it applies to *performance* audits:

The plan of a department and methods and procedures adopted by the department to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The work of the internal auditor should focus on providing management with an appraisal of the status of the body of internal controls regulating the operations for which that department has responsibility.

Internal control, in the broad sense includes...control which may be characterized as either accounting or administrative as follows:

Accounting Controls: are all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of the financial records, not only of the County as a whole, but within each department. Accounting controls generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and internal auditing.

Administrative Controls: are the policies and procedures, the County as well as individual departments, that are concerned mainly with operational efficiency and usually relate only indirectly to the financial records.

4.4 Evaluation of Internal Controls

The extent to which the internal auditor relies on internal controls for a particular audit is a judgmental determination made by the internal auditor and the Auditor-Controller. If there are plans to place reliance on internal controls, the internal auditor must evaluate the controls as they exist during the period of the audit to determine if control procedures are adequately designated to provide reasonable assurance they will prevent or detect and correct errors and irregularities. The internal auditor's evaluation of the controls will directly affect the nature and extent of the audit tests performed. Internal controls will be documented for each audit if applicable.

4.5 Internal Control Objectives

To achieve the objectives of internal controls, a system should have certain essential features. The following principles are basic to an effective system of internal controls:

- **Appropriate authorization:** Authorizations for events should be in accordance with criteria established by law, regulation, and policy. A typical authorization objective is that only personnel meeting employment requirements should be hired.

- **Economic, efficient, and effective operation:** Operations should be conducted in the most economic and efficient manner to achieve the goals defined by law, regulation, and policy. Operations should be completed in the most economic and efficient manner possible to ensure resources are not wasted in effectively accomplishing goals or missions defined by law, regulation, and policy.
- **Appropriate classification:** Transactions should be accurately classified in accordance with law, regulation, and policy. If employees' time is not properly classified among programs, management reports will be meaningless.
- **Proper processing:** All authorized events should be identified, converted into transactions, properly processed, added to files in the appropriate systems, and accurately reported in a timely manner. If transactions are not properly processed, data and reports will be inaccurate and management will be unable to accurately determine where the department is and where it is going.

The proper transaction-processing objective is further broken down into these specific objectives:

- Events should be recognized and submitted for acceptance on a timely basis.
 - All events meeting management's policy should be accurately converted to transactions and accepted for processing on a timely basis.
 - All accepted transactions should be processed accurately, in accordance with management's policies and on a timely basis.
 - The results of processing should be reported accurately. Data base elements should accurately reflect the results of processing.
- **Substantiation and evaluation:** Records and data should be periodically substantiated and evaluated. A report of property items is of no value if it does not accurately reflect actual property on hand.
 - **Adequate physical safeguard:** Access to assets (including records and data) should be permitted only in accordance with law, regulation, and policy. Without adequate physical safeguards, assets and records may be

stolen, altered, misplaced, or lost and use of important resources may be lost.

In evaluating the controls in a function, understanding the underlying objectives is the first step in the process. One needs to identify what the function is intended to achieve in order to minimize risks.

4.6 Control Activities

Once the control objectives have been identified, the next step is to determine the control activities that will achieve those objectives. Control techniques are generally categorized as follows:

- **Directive controls** are designed to cause or encourage desirable events to occur. Examples include policies and procedures, budgets, and information technology (IT) standards.
- **Prevention techniques** are designed to keep errors and irregularities from occurring in the first place. Examples include training, review and approval processes, access authorizations and use of passwords.
- **Detection techniques** are put in place to provide reasonable assurance that errors and irregularities are discovered and corrected on a timely basis. Examples include cash counts, bank reconciliations, and review of payroll reports; compare report transactions to source documents, and monitoring of expenditures/expenses against budget.

In evaluating an auditee's control environment, consideration must be given to an acceptable balance of controls to achieve the objectives. It is not practical in many cases for a department to have all possible control techniques in place. However, a balance of certain controls can provide reasonable assurance that the objective will be achieved.

In identifying control activities, internal auditors must take care to ensure that a procedure is not mistaken for an activity. The question needs to be asked in each situation if the technique identified is really a control to prevent or detect and correct, or if it is more of a procedure.

4.7 Materiality

Materiality, while generally thought of in *quantitative* terms, also involves *qualitative* considerations. It is always a consideration for the internal auditor. It must be considered together with audit risk in planning the audit, e.g., determining the nature, timing, and extent of the audit procedures to be performed. It must also be a consideration throughout the audit.

Qualitative aspects of materiality are those, which may influence the audit team member to consider something to be material that might otherwise, from a quantitative standpoint, be immaterial. The misclassification of small dollar expenses may result in significant regulatory ramifications even though an account is not materially misstated.

4.8 Evidential Matter

Authoritative professional literature states that there is to be “sufficient, complete, evidential matter” to afford a reasonable basis for an opinion regarding the information being audited. Evidential matter entails obtaining evidence. Evidence is something that furnishes proof. Evidential matter can be obtained through compliance testing by reviewing and testing internal control systems. In addition, reviewing specific transactions through substantive testing is another means by which evidence can be obtained.

Evidential matter obtained should be copied if appropriate and retained in the workpapers. If it is not appropriate to retain a copy of the evidential matter, the workpapers must contain adequate documentation with respect to material facts and the sources of information.

Competent evidence is evidence that is valid and relevant. Attempts must be made to obtain relevant evidence that is correct and represents the actual activity of the auditee. Obtaining sufficient evidence involves the use of professional judgment. There must be enough evidence to be able to come to an accurate conclusion regarding the operations of the auditee.

4.9 The Electronic Data Processing Environment

Internal auditors should have a fundamental knowledge of the principles of Electronic Data Processing (EDP) auditing. Internal auditors must consider the

methods that Sutter County uses to process accounting information in developing the nature, timing, and extent of EDP audit procedures. In addition, the internal auditor must consider the extent to which the computer is used, the complexity of the installation, the department structure, and the availability and retention of data. Audit objectives do not change depending on whether or not accounting data is processed manually or electronically. However, in some systems it may be difficult or impossible to obtain certain data for inspection, inquiry, or confirmation without computer assistance.

It is the responsibility of the department to identify, minimize, and control the business risks introduced by the computer. The control objective of processing accurate data is as valid in a computerized system as it is in a manual one. However, audit methods used to ensure accuracy will vary. Internal auditors must learn new skills and be able to employ special software packages designed for their use when participating in audits of computerized applications because these systems generally have major impacts on the ways in which departments function. In most cases, automated systems are not just a computerization of an old manual system, but instead reflect new methods of not only recording, but also conducting business.

EDP Audit Planning:

Every effort will be made to obtain/retain EDP internal audit expertise in the IA division. However, recognizing the diminishing resources available to maintain an adequate IA staff and the increasing difficulty in retaining internal auditors with EDP skills every effort will be made to increase the IA staff's skills in EDP auditing through training courses.

Section 5.0 - Audit Planning

5.1 Introduction

Planning for the audit work is essential in order to ensure both the adequate coverage of all high-risk business functions, as well as the high-risk activities within those functions. It is the responsibility of the Auditor-Controller to prioritize IA's work. However, that does not preclude the use of input from the BOS, County Administrative Officer (CAO), and department management as

long as that input is only one element of the prioritization process. Annual audit plans also provide for audit days for unplanned “special requests” from management, as well as audit days for follow-up and closeouts. Additionally, a random, surprise audit may be conducted at any time pursuant to the BOS’s approved internal audit policy.

5.2 Types of Audits

Internal audits may be conducted in a variety of modes. The most common types, which are the responsibility of the IA division, are:

- **Financial Audits:** Those designated to determine (a) whether the financial statements of an audited department present fairly the financial position, results of operations, and cash flows or changes in financial position in accordance with generally accepted accounting principles, and (b) whether the department has complied with laws and regulations for those transactions and events that may have a material effect of the financial statements.
- **Financial-Related Audits:** Those designated to determine (a) whether financial reports and related items, such as elements, accounts, or funds are fairly presented, (b) whether financial information is presented in accordance with established or stated criteria, and (c) whether the department has adhered to specific financial compliance requirements.
- **Performance Audits:** Economy and efficiency include determining (a) whether the department is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the department has complied with laws and regulations concerning matters of economy and efficiency.
- **Operations Audits:** Program Audits include determining (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved, (b) the effectiveness of department, programs, activities, or functions, and (c) whether the department is complying with requirements of laws and regulations applicable to the program.
- **EDP Audits:** Those designated to (a) evaluate the adequacy of information systems to meet their processing needs, (b) evaluate the adequacy of internal

controls, and (c) assure that assets controlled by those systems are adequately safeguarded.

Any of the above types of audits may be conducted at varying levels and with differing scope. Most commonly, however, they will involve one of the following:

A specific function, program, or activity; a specific department; multiple functions; a subcontract; or vendors (cost and pricing data in the form of the following type of audits: pre-award, follow-up, progress payments, and price determination).

In addition, IA may be called on to accept requests for special assignments/requests from Sutter County management.

Audit related activities, which are not the responsibility of the IA division include:

- Supplier Qualification Surveys (Source Surveys) -- surveys performed for the purpose of evaluating the capability of a potential supplier to furnish materials, parts, components, hardware, or services which quantitatively, qualitatively, and cost-wise meet the Sutter County's requirements. The exception to this type of activity is described under vendor audits.
- Subcontractor Performance Evaluations – audits performed at a subcontractor's plant to determine the efficiency and effectiveness with which the terms and conditions of the contract are being fulfilled. The exception to this type of activity is described under vendor audits.
- Quality Acceptance, Product Quality & Reliability, and Safety Inspections.

5.3 Annual Audit Planning

An Annual Audit Plan is the IA Division's annual activities schedule. The plan identifies the resources available to conduct audits and describes the areas of audit emphasis for the year.

In order to establish a fully integrated Annual Audit Plan, work on its development should begin early enough in the year to ensure its completion and approval in June. However, input should be gained throughout the entire year for use in prioritizing auditable activities.

The Annual Audit Plan is the responsibility of the Auditor-Controller and is coordinated with the CAO. The Annual Audit Plan will be developed, published and distributed as of June 30 each year.

5.3.1 Audit Universe and Auditable Units

IA is responsible for auditing all business cycles of Sutter County's accounting and operating systems. Since this "audit universe" is complex, it is best to take a simplified approach and break them down into functions. In most instances, the functions may be individual auditable units. The following list provides a general overview, and includes some of the most common auditable units within the County (the list is not intended to be all inclusive):

- A. Procurement Management
 - Acquisition
 - Receiving & Inspection
 - Administration

- B. Personnel Management
 - Staffing
 - Training
 - Labor Utilization
 - Labor Relations
 - Position Classification & Compensation
 - Employee Relations

- C. Information Management
 - Automated Data Processing
 - Equipment Acquisition
 - Data Facility Management
 - Equipment Utilization
 - Software Development
 - Systems Development
 - Application System(s)
 - Backup & Offsite Storage
 - Maintenance
 - Microcomputers
 - Telecommunications
 - Records Management

Printing, Graphics, and Photography
Public Information
Forms Management

D. Safeguards & Security Management

Physical Security
Personnel Security
Technical Security

E. Environment, Safety, & Health Management

Compliance
Employee Safety & Health
Hazard Analysis
Information Reporting
Emergency Preparedness

F. Financial Management

Cash Management
 Disbursements
 Receipts
Financial Accounting & Reporting
Payroll
Employee Training & Travel
Cost Distribution System
Yearend Financial Account Reviews

G. Government Property Management

Real Property
Personal Property
Materials
Sensitive/Control Property
Small Tools

H. Quality Assurance Management

I. Traffic & Transportation Management

J. Planning & Budget Management

Budget Formulation
Budget Execution

K. Other Support Services

Legal Services

Medical Services

Custodial Services

5.3.2 Risk Assessment Factors

Each auditable unit has a certain degree of associated risk. The number of auditable units comprising Sutter County's audit universe, coupled with limited audit resources, prevents us from performing audits of all auditable units. Consequently, we must review and evaluate the risk associated with each of the auditable units in order to determine where the audit function's efforts should be concentrated.

Each year, a risk assessment is performed of all auditable units on a combined basis. In performing this risk assessment, there are several key factors that must be considered.

- **Susceptibility to Fraud, Waste, or Abuse:** The Yellow Book requires IA to provide reasonable assurance of detecting fraud, waste, abuse, or misuse.
- **Quality of Internal Controls:** This category includes both internal accounting controls and the control environment. The former consists of a department's accounting system and specific controls. An effective accounting system includes the methods and procedures a department has to identify, accumulate, classify, analyze, record, and report its transactions, and maintain accountability for the related assets. The specific controls are the particular policies and procedures relating to the processing of transactions that management has established to provide assurance its objectives will be achieved (i.e., proper authorizations, adequate segregation of duties, adequate physical controls, etc.).

Management's attitude towards controls and its philosophy and operating style affect the control environment. A good understanding of controls by management, along with management's strong support for controls, is necessary elements of a strong control environment.

- **Potential for Loss:** The personal characteristics of the management within the department to be audited play an important role in the control environment. Not only are ethics and integrity characteristics important,

but also the background, experience and competence of the respective individuals is important.

The specific methods a department uses to apply Generally Accepted Accounting Principles need to be a consideration in the audit risk assessment process. This includes the quality of the accounting records, the quality of the internal financial reporting system, the accounting principles followed, and the heavy dependence on complex calculations or subjective determinations to support various account balances.

- **Financial Exposure:** Two aspects that comprise this factor are materiality and the economic environment. In determining financial exposure, primary consideration must be given to the significance of the dollar amount. Consideration should be given to the significance in relation to the particular department, (i.e. legal department, operational unit, reporting unit, etc.). In prioritizing the audits to be performed, financial exposure will be a significant factor.
- **Results of Last Audit:** The outcome of the last audit by IA. If the former review indicates a strong control environment, a subsequent review may be postponed in order to concentrate audit resources in another area.
- **New or Changing Controls, Systems, Programs, or Operations:** A function's existing and future operating characteristics need to be considered in performing risk assessment. If existing operations are complex, there is more room for error or failure to accurately report results of the activities of the department. A change in management's philosophy without adequate internal controls being established could lead to undesirable results. Reorganization or responsibilities and activities could increase the potential for transactions to be reported and recorded incorrectly or not at all.
- **Opportunity to Achieve Operating Benefit:** It is critical that those areas that have the potential to provide the greatest benefit to management be audited. Consequently, inefficient and ineffective functions should be reviewed in order to maximize the resources at Sutter County.

- **Time Since Last Audit:** A function that has been neglected by IA should be considered a higher risk of having control weaknesses than one that has been reviewed frequently.

5.3.3 Rating Auditable Department Risk Exposure

The rating of risk exposure is a difficult and time-consuming task. The level of exposure for each risk factor is determined as it applies to a particular auditable department. The risk factor rating is then multiplied by its associated risk factor weight. The resulting risk factor scores are added to obtain a risk factor total. This total is a numeric representation of the risk exposure for a given auditable department. Scores are sorted from highest to lowest; thus the auditable department with the highest score represents the highest exposure. If the Auditor-Controller has concerns relating to the level of risk in any area the CAO and the BOS will be informed.

Audit topics selected for review, depth, and breadth of coverage are dependent primarily on the resources made available to the IA division, particularly the quantity and quality of manpower. Care will be exercised to achieve an optimum balance between the breadth and/or frequency of coverage in any one area and the number of areas to be audited.

5.3.4 Submittal of the Annual Audit Plan

The proposed plan is presented to the BOS for review and comments prior to the formal submittal.

The Audit Plan as a Goal

As a goal, the Audit Plan should be capable of being accomplished within specified operating plans and budgets, and to the extent possible, should be measurable. Audits should be accompanied by measurement criteria and targeted dates of accomplishment. See Section 5.6 pertaining to Audit Project Planning, which helps to accomplish this end result.

5.3.5 Changes to the Plan

Throughout the year, events will occur that may change the annual plan. Changes requiring a deletion, addition, or significant modification need to be discussed and documented. Significant modifications will be reflected in a revised Audit Plan.

5.4 Audit Project Assignments

The Auditor-Controller will assign specific audits to the internal audit staff. Any possible conflicts of interest will be considered by the Auditor-Controller before audits are assigned. An Audit Data Sheet, as it appears in the Annual Audit Plan, will be used to provide the internal auditor with the objective, purpose, and scope of the audit in broad terms. In addition, the internal auditor will be given a target man-day allocation for accomplishment of all phases of the audit project, as well as tentative start and completion dates. It is the responsibility of the internal auditor to fully develop the objective, purpose, and scope of the assignment, develop a schedule for completion (within the given audit days), and adhere to the schedule. An example of an Audit Data Sheet is presented in Exhibit 6.

5.5 Audit Project Responsibilities

Internal auditors have full responsibility for the conduct of audit projects to which assigned, subject to the operational directions of the Auditor-Controller and the administrative provisions of the Audit Data Sheet and the IA Guidelines. The internal auditor (or internal auditor-in-charge in the case of multiple internal auditors assigned to the project) is responsible for ensuring that the agreed on project budget and schedule are met. The internal auditor-in-charge is responsible for monitoring the work performed and to direct as necessary to ensure high standards of performance. During the planning or fieldwork phase, if it is determined by the internal auditor that the time allocated to the project is not sufficient to adequately complete the assignment, the internal auditor is to request from the Auditor-Controller an increase in the time allocated or to reduce the original scope of the project, and provide supporting reasons for the request.

5.6 Audit Project Planning

When scheduling for individual audits, planning time must be scheduled in advance of the actual fieldwork. The planning must not be so far in advance that the information is outdated by the time fieldwork begins, but by the same token, the planning should not be scheduled so close to the fieldwork that adequate supervisory reviews of the planning documentation cannot occur. In

any event, adequate planning must occur to minimize significant last minute changes to the schedule.

The “Yellow Book” Standards require that all audits are properly planned and include steps to provide reasonable assurance (not absolute or complete) that material instances of noncompliance that directly relate to the assignment’s objectives are detected and reported.

Audit Project Planning consists of definitizing the aggregate of actions required to be taken in fulfillment of the objective of a specific audit project. These actions include:

- conducting research preparatory to on-site auditing;
- preparing and distributing an audit announcement letter;
- conducting preliminary interviews;
- documenting consideration of fraud, safety and applicable Cost Accounting Standards;
- developing flowcharts and the risk and techniques matrix to include applicable internal controls in “Areas of Weakness or Internal Control Point’s and to include “Risk, Materiality, and Fraud Indicators” on the matrix;
- preparing an audit program which includes documentation of applicable Cost Accounting Standards, fraud discussions, and consideration of safety issues relating to the audit fieldwork;
- establishing time-phased schedules and allocating Full-Time Equivalent (referred to as “FTE”)-days to each audit task;
- preparing and distributing a notification letter;
- scheduling and conducting an entrance meeting; and
- assigning audit tasks to team members and coordinating team activities (if applicable).

5.6.1 Audit Project Research

Internal auditors will be responsible for assembling documents and data related to the area to be audited. Such documents and data should include, where appropriate, but not be limited to: copies of reports previously issued that are applicable to the audit; department organization charts; copies of applicable contract terms and conditions; copies of applicable Sutter County

policies and procedures; copies of approved staffing levels and budget; and a copy of the “next audit memo” from the previous workpapers.

The objective of the research is to gain knowledge about the area to be reviewed and the environment in which that area functions. The internal auditor is to thoroughly review the data and documents made available, prior to audit activity.

5.6.2 Audit Notification Announcement

A Notification Announcement is to be prepared for each audit project by the Auditor-Controller at least one week prior to the commencement of the preliminary survey. The Notification Announcement should include:

- an audit number and title of the audit;
- a general description of how the internal auditor(s) will function;
- the name and extension of the assigned internal auditor (or internal auditor-in-charge); and
- the audit project initiation date.

Once the notification announcement is sent, the internal auditor will contact the department’s management having cognizance over the areas(s) to be audited to discuss the planned audit.

5.6.3 Preliminary Interviews

Prior to commencement of audit activity, and in order to develop the Audit Program, preliminary interviews are conducted. Interviews are to be arranged with functional managers in order to provide an overview to the internal auditor. During the interviews, any questions formulated from a review of the policies and procedures are asked and documented. The interview is an important part of the planning, since it is through the interview that information is obtained and flowcharts are derived for use in evaluating the system of internal controls.

The internal auditor’s questions should be concise and easily understood and every effort should be made to avoid an impression of “trick” questions or of attempting to put words in the interviewee’s mouth. The atmosphere during an interview should be as relaxed as possible, and the interviewee should be encouraged to do most of the talking.

Note taking during the interview should be held to a minimum, and should be done in such a manner so as not to hinder the flow of ideas and information. However, it is dependent on the particular circumstances and the relationship established with the interviewee. The exercise of discretion is required.

Interviews are to be documented in the audit workpapers directly following the completion of the interview or as soon thereafter as possible. As applicable, meeting notes of interviews containing technical subjects or involving controversial topics should be reviewed and initialed by the interviewee for accuracy prior to inclusion in the work papers.

5.6.4 Flowcharts

Flowcharts are high-level pictorial representations of the internal auditor's understanding of the flow of transaction processing within a function. From the flowcharts, the internal auditor identifies significant system strengths, weaknesses, and internal control points. This identification process is integral to the establishment of audit test procedures as documented within the audit program. Generally, one flowchart is prepared for each function. It may be appropriate in more complex situations to prepare a brief supporting narrative to the flowchart.

The flowchart and control matrix serve as the basis for the audit program. The flowchart should be prepared in conjunction with the matrix, before any audit testing begins.

Flowcharting is most beneficial in situations where there are large volumes of repetitive transactions. While the flowcharts are not to be too detailed, they should not be so simplified that the existing internal controls are not highlighted. The auditee individuals performing the respective operations in the flowchart should be identified by their position and not by name. This is because the flowcharts are documents that will carry forward from audit to audit and it is likely that the same person will not be performing the identified operations from year to year.

5.6.5 Risk and Techniques Matrix

The Risk and Techniques Matrix is used in developing the audit program from the control points identified in the flowcharts. A determination regarding (1) the extent of reliance that can be placed on the controls in audit

testing and (2) the testing planned to ensure controls are operating as intended should be made and documented in the matrix. Likewise, a decision not to place reliance on any or all of the controls stated should be documented along with what testing will be performed.

Appropriate cross-references should be used on the matrix and the flowchart to indicate control points. An evaluation should then be made as to the effectiveness of one or more of the stated controls to mitigate the risk associated with the specific objective. The format for the Risk and Techniques matrix is presented in Exhibit 7.

A Risk and Techniques Matrix will normally be used for each audit. The matrix should indicate the control objectives and the related control techniques that will achieve the respective objectives. The focus should be on controls that are currently in place and can be tested. Where controls are either lacking or deficient, the control enhancement needed should be documented in the planning lead sheet and an exception identified.

5.6.6 Audit Objectives, Scope, and Methodology

The most important step in planning an audit is to carefully define the audit objectives. Simply stated, an objective is a precisely worded question that the audit is trying to answer. The statement of audit objectives should clearly articulate what the audit is to accomplish. The audit objectives will affect every phase of the audit, from the selection of scope, methodology, and staff, to the conduct of the audit, and the timing and nature of the report to be issued. Time invested in determining an audit's objectives are usually time well spent because an audit with clear objectives is unlikely to result in wasted resources, delays, and poor quality reports. Clear objectives are also critically important in determining the nature and extent of testing that must be done to satisfy the requirements for examining internal control and compliance with laws and regulations. GAS and IIA *Standards*, for both performance and financial audits, require internal auditors to determine if assignment objectives require that tests of compliance with laws and regulations be performed, as discussed below.

The audit objectives are to determine:

- The economy, efficiency, and effectiveness of the audited operations;

- The extent of the compliance with contract requirements, laws, and regulations;
- The reliability and usefulness of financial statement information;
- The reliability of the allowable cost representations; and
- The extent to which a program has achieved the desired level of results.

Audit objectives are important in deciding on the scope of an audit. Scope includes such factors as the time period to be covered, the extent of testing, and locations or activities to be audited.

Audit methodology includes the methods and techniques used to gather and analyze data needed to accomplish the audit objectives. The statement on methodology should clearly explain the evidence gathering and analysis techniques used to accomplish the audit's objectives. The explanation should identify any assumptions made in conducting the audit, describe any comparative techniques applied and measures and criteria used to assess performance, and if sampling is involved, describe the sample design and state why it was chosen.

The internal auditor is required to address audit objectives, scope, and methodology in preparing each audit program. The audit planning is to be approved by the Auditor-Controller prior to start of fieldwork.

5.6.7 Schedules

An Audit Schedule is developed by the internal auditor based on the total estimated audit days (indicated in the Data Sheet). The audit should be scheduled with approximately 30% of the audit days dedicated to Planning (Phase I), 60% dedicated to Fieldwork (Phase II), and 10% dedicated to Report Writing (Phase III). The actual audit days and milestones should be marked on the schedule as they occur and schedule slips should be discussed with the Auditor-Controller and documented.

5.6.8 Notification Announcement for Entrance Meeting

Prior to the scheduled entrance meeting, written notice of such meeting shall be sent to the management of the audited department/function. The entrance meeting location should be at the convenience of the audited department and is coordinated by the internal auditor. The notification is to be addressed to the department's management with department/functional interest in the

audit topic. The notification is to be prepared for each audit project by the assigned internal auditor and shall contain at a minimum:

- An audit number and title of the audit;
- The objective and scope of the audit;
- The time and location of the entrance meeting; and
- The name and extension of the assigned internal auditor.

5.6.9 Entrance Meeting

An Entrance Meeting is to be conducted with all management invited from the department/functional management having cognizance over the area(s) to be audited, unless waived by the department/functional management. The purpose of the Entrance Meeting is to discuss the planned audit and to assure that the audit coverage planned will result in obtaining the maximum results. Copies of the audit objective, scope, and schedule are to be taken to the meeting where the internal auditor is responsible for reviewing the audit methodology with the auditee management.

The number and level of personnel at the meeting, and the depth and breadth of the briefing content, will depend on the scope of the audit. Generally, the entrance meeting will be directed toward:

- Updating information gained by the internal auditor during the project research (pre-scope) phase;
- Encouraging discussions of concepts, future plans, and objectives, and
- Obtaining a general orientation of the area(s) to be audited.

Internal auditors should have the opportunity to ask questions when appropriate. The meeting will also provide the opportunity for distribution to internal auditors of pertinent data and documents not previously made available. An opportunity should be provided for questions on the part of the auditee personnel present. An Entrance Meeting Memo documenting attendees and the discussions is to be written directly following the meeting and is to be included in the workpapers. An example of an Entrance Meeting Memo is presented in [Exhibit 8](#).

5.6.10 Assignment of Tasks to Team Members & Coordination of Audit Assignments

Team assignments may occur in instances where there is a new internal auditor assigned, where the subject matter is unusually complex, or where rapid completion of the audit is necessary. In these cases, the Auditor-Controller may designate an internal auditor-in-charge (lead auditor) and another IA team member(s). (Note: In the more likely instances of an internal auditor working alone, the internal auditor must assume the responsibilities outlined below for the internal auditor-in-charge.)

Consideration will be given to the internal auditor's technical abilities and areas of interest, as well as to the demonstrated efficient use of time. The internal auditor-in-charge and the supporting internal audit staff should be listed in the workpapers when the audit assignment is given. If additional technical support is required, e.g., a statistician or an audit software programmer, the technical support members should also be mentioned in the Planning Section of the workpapers.

The internal auditor-in-charge is to provide each IA team member with a copy of the Audit Assignment Sheet, along with clear instructions for the designated section assigned to the IA team member. The IA team member(s) should receive a copy of the audit objective and scope, suggested contacts, fieldwork objective for that section, as well as due dates for completion.

Once the internal auditor-in-charge has received the assignment, the IA team member can begin charging the assignment for hours expended on the audit.

The internal auditor-in-charge is responsible for generating Entrance/Progress Meeting Memos; organizing meeting times; developing schedules and agendas; coordinating audit efforts by the internal audit team; and writing and issuing the audit report (sections of the audit report can be assigned to the IA team member conducting the fieldwork).

Following the assignments to internal audit team members, it is the internal auditor-in-charge's responsibility to monitor the progress of the team; ensure team members are maintaining their focus; provide guidance and instructions when/if necessary; supervise audit fieldwork performed; review and approve workpapers; and keep the Auditor-Controller informed of problems and issues as they arise. It is also the responsibility of the internal

auditor-in-charge to maintain the schedule as closely as possible. Unnecessary delays caused (or perceived to be caused) by the team members are to be referred to the Auditor-Controller.

It is not the responsibility of the internal auditor-in-charge to “re-audit” the area performed by the IA team member unless the internal auditor-in-charge has reason to doubt the IA team member’s ability. Conclusions drawn by the IA team member are to be identified in lead sheets and exceptions are developed and reviewed by the internal auditor-in-charge during workpaper review. Unresolved differences are to be brought to the attention of the Auditor-Controller and so noted in the Reporting Section of the workpapers.

5.7 Internal Audit Quality Assurance Guidelines

A checklist has been developed to ensure that certain audit steps common to all audit projects, particularly steps to be accomplished in the planning and final phases of each project, will be performed. As each item on the list is accomplished, the internal auditor is to record that fact in the appropriate column.

It is the responsibility of the internal auditor-in-charge to use the checklist for each project. As soon as a project has started, the list should be placed in the work papers so it will serve as a reminder to the internal auditor and be available as a basis for the supervisory review. During and after the performance of work, when any item on the checklist is not to be done, the reason for its omission should be indicated. A copy of the IA Quality Assurance Guidelines is presented in Exhibit 9.

5.8 Coordination with External Auditors

As needed, periodic meetings should be conducted to discuss matters of mutual interest with outside (external) auditors to achieve an efficient site-wide audit program in compliance with the Cooperative Audit Strategy. The purpose of the meetings should be to assure that audit coverage is coordinated and duplicate efforts are minimized. Sufficient meetings should be conducted to assure coordination of audit work and efficient and timely completion of audit activities, and to determine whether findings from work performed to date requires adjustment of the planned work scope.

Access to audit programs, audit reports, management letters, and follow-up reviews, by external auditors may be necessary. However, care must be given to the access that is provided to external Auditors (external CPAs). Also, the IA division's access to other external audits should not be limited unless the information represents client-privileged information.

Relative to the coordination of audit work, the IA internal auditor-in-charge should understand the scope of work planned by external auditors including the level of materiality planned, the nature, and extent of procedures, the external auditor's techniques, methods, and terminology. In addition, the Auditor-Controller should provide sufficient information to enable external auditors to understand the work planned by the IA division including the level of materiality planned, the nature, and extent of procedures, the internal auditor's techniques, methods, and terminology. Similar techniques, methods, and terminology help to more effectively coordinate audit work and determine whether the work of external auditors can be relied on.

Section 6.0 – Audit Project Budgets, Schedule, and Time Reports

6.1 Introduction

It is the responsibility of the internal auditor in coordination with the Auditor-Controller to establish budgets (in FTE-days) and target dates for each audit phase, sub-phase, and audit segment to ensure completion of the audit within the number of days allocated and within the scheduled start and completion dates.

6.2 Audit Schedules

The number of FTE-days available for allocation to a specific audit project, the time period during which it will be conducted, and the number of personnel assigned to the audit, normally will have been determined in the course of the Annual Audit Plan. It is the responsibility of the internal auditor to establish phase completion schedules and allocate available FTE-days to ensure that the FTE-days budget and schedules will be met.

Audit Phases are defined as:

Phase I (Planning): Includes all time spent on the project to firmly establish the specific purpose and scope of the work to be performed, and the preparation and approval of the audit program, including research and surveys made to provide necessary information. It is generally all time spent up to the beginning of fieldwork.

Phase II (Fieldwork): Includes all time spent on the project in completing various analyses and tests set forth in the audit program. Fieldwork also includes the internal auditor-in-charge's time supervising IA team members, reviewing their work, organizing the workpapers, and discussing audit findings. Also to be included in this category, but segregated, is the time the internal auditor-in-charge spends with the Auditor-Controller during his review of the fieldwork and workpapers.

Phase III (Reporting): Includes all time spent on the project in preparing a report outline, completing the initial draft of the report. Also, time required for proofreading, editing, rewriting, and cross-referencing the draft to the applicable section of the workpapers. All time discussing the findings with the auditees and conducting the exit meetings, through issuance of the final report, constitute time to be charged to Phase III.

Section 7.0 – Audit Project Performance and Electronic Workpapers

7.1 Introduction

Because each audit is unique, no standards exist that can be applied to every audit project. However, since the process of auditing is relatively consistent from audit to audit, guidelines can be established for audit evidence, audit techniques, and audit methods.

If during the audit, any member of the audit staff has issues with access to information or individuals, resistance or lack of cooperation during interviews or any other action that might hinder performance of the audit, the internal auditor should immediately notify the Auditor-Controller. The Auditor-Controller will take immediate action to address the situation including notifying the CAO and the BOS as necessary.

7.2 Audit Evidence

Audit evidence may be categorized as physical, documentary, testimonial, or analytical. Electronic workpapers are to reflect the details of audit evidence and disclose how it was obtained. They may include scanned copies of papers, tapes, films, disks, or any other corroborating information considered necessary in the circumstances. The internal auditor's goal shall be to obtain the "best" possible evidence in terms of supporting an observation.

Physical Evidence

Physical evidence may be documented in the form of memorandums summarizing the activities, property, or events inspected or observed. Physical evidence may include charts, maps, photographs, or actual samples.

Documentary Evidence

Electronic copies of documentary evidence, such as letters, contracts, or accounting records, should be included as necessary to support conclusions, or to serve as an example of documents reviewed but considered too voluminous for full inclusion in the workpapers.

Testimonial Evidence

Testimonial evidence from audit interviews, conferences, or telephone conversations should be corroborated with additional evidence when possible. Testimonial evidence also needs to be evaluated from the standpoint of whether the individual may be biased or only have partial knowledge about the subject. Internal auditors should not rely on uncorroborated statements as the sole support for conclusions; they must verify statements through record examination, observation, or statements of others. If corroborating facts are not available, or impractical to obtain, the workpapers should so state.

Analytical Evidence

Analytical evidence such as computations, comparisons, reasoning, statistical summaries, and segments of information should be included as necessary to support conclusions.

7.3 Audit Techniques (Gathering Evidence)

Generally, audit techniques are limited to varying combinations of document examination and analysis, testimonial evidence, and observations. The degree to which any one of these techniques will be employed in the course of an audit project will depend primarily on the nature of the project. In the conduct of Financial Audits, document examination and analysis will be the predominant technique used. Performance Audits will probably depend more on observations and interviews. However, almost every audit project, whether Financial or Performance, will necessitate the use of all three primary techniques since they are mutually complementary in obtaining desired results.

7.3.1 Document Examination & Analysis

Successful use of the document examination and analysis technique requires the exercise of persistence and orderly thinking. The internal auditor must be able to relate the contents of one document to what he finds in other documents. To do this, he must concentrate on what he reads to assure memory retention, and he must maintain “highlights” and summary notes for cross-referencing. These notes should be sufficiently detailed and comprehensive to permit their effective use in analyses and evaluations, thus precluding the need for continued re-examination of numerous and lengthy documents.

Document examination and analysis includes the use of techniques to determine that the transactions represented by documents were:

- Approved by the appropriate management level;
- Processed in accordance with established procedures or practices;
- Properly recorded or reported; and
- In accordance with Sutter County policy.

7.3.2 Interviews

Use of the interview technique can be particularly productive, since knowledgeable individuals are often the sole source of information required for sound analyses and evaluations. However, it is the most difficult technique, requiring the use of special attributes and a high degree of imagination and ingenuity. The internal auditor must first become sufficiently knowledgeable of the subject under discussion to enable

meaningful discourse with the interviewee. In addition, the internal auditor must convince the individual being interviewed that his sole purpose in interviewing is to obtain information needed to enhance his ability to be helpful. Interview questions should be prepared in advance, be concise, and easily understood, and every effort should be made to avoid an impression of “trick” questions or of attempting to put words in the interviewee’s mouth. The questions should be developed to encourage conversation, and not invoke a “yes or no” response, and the interviewee should be encouraged to do most of the talking. The interview should take place in the audited individual’s office area to convey a more professional and helpful attitude by the internal auditor and to encourage a more relaxed atmosphere for the interviewee.

Note taking during the interview should be held to a minimum, and should be done in such a manner so as not to hinder the flow of ideas and information. However, it is dependent on the particular circumstances and the relationship established with the interviewee. The exercise of judgment is required.

If information is particularly significant to an audit, the person interviewed should be asked to read an interview write-up, make any changes deemed necessary and initial or sign it to show concurrence. If the interviewee refuses to sign, it is unlikely much reliance should be placed on the statement.

A written explanation should be requested when complex issues are not fully understood by the internal auditor.

When it is necessary to get especially critical or sensitive information from an interviewee, two internal auditors should attend the meeting, and both should provide input to and signoff on the interview memo to indicate agreement on its accuracy.

7.3.3 Observations

The observation technique is valuable, since it is the one source of unrecorded information devoid of subjective influences. Observing people at work, the condition of machinery and equipment, or the general atmosphere in an office, for example, may give a much more valid impression of things as they really are than records and reports. However, to

be effectively used as support for conclusions, observations must be recorded and referable over a period of time at random intervals. The recording of random observations, as suggested, can be useful in determining and documenting manpower and/or machine utilization, work conditions, adherence to security provisions, etc.

7.4 Evidential Matter

Audit standards require that sufficient (i.e., enough), relevant (i.e., applicable), competent (i.e., reliable) evidential matter should be obtained to provide a reasonable (i.e., rational) basis for an opinion. To ensure that the various types of evidence obtained are sufficient, relevant, and competent, the internal auditors must ensure that the evidence is obtained from a reliable source and is accurate. The following criteria are used to achieve these objectives:

Sufficiency: This refers to the presence of enough factual and convincing evidence to support the finding and conclusions. When appropriate, statistical methods may be used to establish sufficiency. Workpapers shall be complete and accurate in order to provide proper support of findings, judgments, and conclusions, and to clearly identify the nature and scope of the work conducted.

Relevancy: This refers to the relationship of evidence to its use. The information used to prove or disprove an issue is relevant if it has a logical, sensible relationship to that issue. Information that does not is irrelevant and therefore should not be included as evidence. Internal auditors should avoid including superfluous material in the workpapers simply because copies are available or can be readily reproduced. If adequate analyses and interpretations can be made from the records being audited, only limited data need be transcribed to the workpapers. Workpapers shall be restricted to matters that are relevant to the assignment objectives.

Competence: This refers to the evidence being valid and reliable. In evaluating the competence of evidence, the internal auditors should carefully consider whether reasons exist to doubt its validity or completeness. If so, the internal auditors should obtain additional evidence or reflect the situation in the report. The following is offered as guides for determining competent evidence:

- Evidence obtained from an independent source is more reliable than that secured from the audited department.
- Evidence developed under a good system of internal control is more reliable than that obtained where such control is weak, unsatisfactory, or nonexistent.
- Evidence obtained by the internal auditor through physical examination, observation, computation, and inspection is more reliable than evidence obtained indirectly.
- Original documents are more reliable than copies.

7.5 Sampling

Many times it is not practical to audit 100% of all transactions, so a representative sample must be selected from the population. The sample can be selected either informally or statistically, but should follow Statement on Auditing Standard 39 “Audit Sampling” and include a Sampling Plan.

The Sampling Plan includes the following: define the objective; define the universe; define errors; estimate the sample size; select the sample; examine the sample (investigate errors); evaluate sample results; interpret results; and draw audit conclusions.

Define the Objectives: Objectives should be specific and relate to the objectives of the control element. They should also be valid and authorized, properly valued and classified, recorded in the proper period, summarized correctly, and posted to appropriate books and records.

Define the Universe: The Universe must be intact so that all elements have an equal chance of being included in the sample.

Define Errors: The audit should be concerned with errors of audit significance only. Examples include:

- Invoices not agreeing with receiving reports;
- Improperly coded invoices;
- Invoice price not agreeing with purchase order price;
- Cancelled checks not agreeing with the invoice; and
- Cancelled checks not agreeing with the cash disbursement journal.

Estimate the Required Sample Size: This is only an estimate.

Select the Sample: The sample may be random or judgmental.

Examine the Sample and Investigate Errors: Determine and document the circumstances which caused the error or permitted the error to remain undetected, the presence or absence of a pattern of errors, and the potential impact of similar errors on the financial records and accounts.

Evaluate Sample Results:

Interpret Test Results and Draw Audit Conclusions: Informal and statistical sampling methods differ. Informal sampling relies solely on judgment in deciding how many items to examine and in evaluating sampling results (e.g., block sampling). When using statistical sampling methods, the internal auditor must state in numerical terms the criteria the test must meet, and he must use these criteria to determine the sample size and to qualify the sampling results. The sample must be selected randomly, and each universe item must have an equal or known chance of being selected. Types of statistical sampling include attribute, variable, and dollar unit.

For statistically based sampling in the government environment, a 95% confidence level is recommended.

7.6 Conclusions

Audit conclusions are clear and concise expressions of the determinations arrived at in the evaluation process.

7.7 Wrongdoings including Illegal Acts, Irregularities, Material Non-Compliance with Laws or Regulations, Waste, Fraud, Abuse, Defalcation, Corruption, or Mismanagement

Sutter County recognizes an increasing expectation that the internal audit community should strengthen its efforts to evaluate compliance with laws and regulations and detect and report significant illegal acts and abuses, including wrongdoings such as fraud, waste, and abuse.

Audits do not guarantee the discovery of illegal acts. The subsequent discovery of illegal acts committed during an audit period does not necessarily mean that

an internal auditor's performance was inadequate, provided the audit was made in accordance with IA or government auditing standards.

Whether an act is illegal is a determination that may be beyond the internal auditor's professional capacity. However, internal auditors are responsible for being aware of vulnerabilities to fraud associated with the area being audited in order to be able to identify indications that fraud may have occurred. Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. A heightened risk of fraud may occur when personnel offer unreasonable explanations to the internal auditor's inquiries, are annoyed at reasonable questions by internal auditors, refuse to provide records, or refuse to take vacations or accept promotions.

Abuse occurs (even though no law, no regulation, no contract, or no agreements have been violated) when the conduct of a government program falls far short of societal expectations for prudent behavior. Internal auditors are to be alert to situations or transactions that could be indicative of abuse. When information comes to the internal auditor's attention that abuse may have occurred, internal auditors should consider whether the possible abuse could significantly affect the audit results. If it could, the internal auditor should extend the audit steps and procedures, as necessary, to determine if the abuse occurred and if so, to determine its effect on the audit results. However, because the determination of abuse is so subjective, internal auditors are not expected to provide reasonable assurance of detecting it.

Internal auditors are responsible for being aware of the characteristics and types of potentially material irregularities that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material irregularities.

Internal auditors should:

- Design audits to provide reasonable assurance of detecting irregularities that are material to financial statements, including intentional misstatements or omissions of amounts or other disclosures;
- Design audits to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts that are

violations of laws and regulations having a direct and material effect on the determination of financial statement amounts;

- Be aware of the possibility that indirect illegal acts may have occurred that are violations of laws and regulations having a direct and material effect on the determination of financial statement amounts;
- Apply audit procedures specifically directed to ascertaining whether illegal acts have occurred, if specific information comes to the internal auditor's attention that provides evidence concerning the existence of possible illegal acts that could have a material (direct or indirect) effect on financial statements; and
- Design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial amounts.

Internal auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require internal auditors to report indications of certain types of irregularities or illegal acts to law enforcement or investigating authorities before extending audit steps and procedures. Internal auditors may also be required to withdraw from or defer further work on the audit or portion of the audit in order not to interfere with an investigation.

If, during or in connection with an audit of a government department, the internal auditor becomes aware of illegal acts or finds indication of such acts affecting the government department, the internal auditor should promptly report them to the Auditor-Controller. The Auditor-Controller will be responsible for advising the CAO, BOS, and the appropriate oversight organization, if any. If the appropriate management is believed to be a party to such acts or otherwise implicated, the internal auditor should in all cases report to the appropriate oversight body. If the acts involve funds received from other government organizations, internal auditors should also promptly report to the proper officials, including the audit officials, of those organizations.

It is important that the internal auditors exercise extreme care and good judgment in issues where fraud is indicated. Under no circumstances should they discuss the matter with anyone other than the Auditor-Controller.

The internal auditor may recommend whatever investigation is considered necessary in the circumstances. Thereafter, the Auditor-Controller should follow-up to see that the IA division's responsibilities are being met.

The investigation of fraud consists of performing extended procedures to determine whether fraud has occurred. This includes gathering sufficient information about the specific details of a discovered fraud.

During fraud investigations, internal auditors should:

- Assess the probable level and the extent of the complicity (number of personnel participating) in the fraud within the department so that the internal auditor avoids providing information to or obtaining misleading information from persons who may be involved;
- Determine the knowledge, skills, and disciplines needed to effectively carry out the investigation to ensure that the investigation is conducted by individuals having the appropriate type and level of technical expertise. This should include assurances on such matters as professional certifications, licenses, reputation, and that there is no relationship with those being investigated or to any other employees or management of the department;
- Design procedures to follow in attempting to identify the perpetrators, the extent of the fraud, techniques used, and the cause of the fraud;
- Coordinate activities with management personnel, county counsel, district attorney and other specialists as appropriate throughout the course of the investigation; and
- Understand the rights of alleged perpetrators and personnel within the scope of the investigation and the reputation of the department itself.

Once a fraud investigation is concluded, internal auditors should assess the facts in order to determine if controls need to be implemented or strengthened to reduce future fraud, design tests to help disclose the existence of similar frauds in the future, maintain sufficient knowledge of fraud, and be able to identify future indicators of fraud.

Reporting of fraud consists of various forms of communication (oral or written, interim or final) to management about the status and results of the investigations. A preliminary or final report may be desirable at the conclusion of the detection phase. The report should include the internal auditor's

conclusion on whether sufficient information exists to conduct an investigation. The report should summarize findings that serve as the basis for this conclusion. Other guidelines on reporting fraud are as follows:

- When the incidence of significant fraud has been established to a reasonable certainty, senior management and the BOS should be notified immediately, if appropriate.
- If appropriate, the Auditor-Controller should inform senior management and the BOS whether the incidence of fraud has an adverse effect on previous financial statements.
- If appropriate, a written report should be issued at the conclusion of the investigation phase including all findings, conclusions, recommendations, and the corrective action that will be taken by management.
- If appropriate, a draft of the proposed report should be submitted to county counsel for review. In cases where the internal auditor wants to invoke client privilege, consideration should be given to addressing the report to county counsel.

7.8 Teamwork

The successful performance of an audit project involving more than one internal auditor requires a high degree of coordination, cooperation, and teamwork. On multi-internal auditor projects, each team member normally will be assigned specific areas for which they have primary responsibility. The numerous functional, departmental and personal interfaces inherent in the conduct of business necessitate comparable interfaces between/among the internal auditors.

It is the responsibility of the designated internal auditor-in-charge to assure an effective degree of coordination and cooperation among audit project team members. The primary media for teamwork should be informal exchange of information, ideas, and data. However, in the case of large teams, frequent team meetings for this purpose are essential. A lack of adequate teamwork during the fieldwork phase of an audit will result in the analysis, evaluation, and reporting phases being hampered by conflicts, overlap, duplication, inconsistencies, and oversights.

7.9 Electronic Data Processing Tools

Sutter County makes extensive use of computer-based systems to support its activities. The majority of audit evidence resides in some form of computer-based record, i.e., computer reports, on-line documents, databases, etc. To increase the efficiency and effectiveness of internal audits, the internal auditor should possess EDP audit skills or work closely with an EDP Auditor during the planning stages of each audit to ensure the use of audit software is maximized.

Section 8.0 – Nature and Purposes of Workpapers

8.1 Introduction

A record of the internal auditor's work is to be retained in the form of electronic workpapers. Currently the IA division maintains workpapers manually on the county shared drives. We hope to move towards an electronic workpaper program in the future as resources allow. Standards of fieldwork require the internal auditor to gather sufficient evidential matter to support his work, and the workpapers constitute that evidential matter. Because workpapers provide the basis for the internal auditor's opinions, conclusions, and recommendations, their importance and usefulness cannot be overemphasized.

8.2 Workpaper Requirements

General Standards

The workpapers should (1) include sufficient data to substantiate audit findings and conclusions, yet not suggest that excessive time was taken to obtain unnecessary information, and (2) be orderly and professional and should stand on their own. In accordance with professional standards, workpapers shall contain sufficient, competent, and relevant evidential matter obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for opinion to support findings, and conclusions reported regarding a department, program activity, or function under audit. In addition to information being sufficient, competent, and relevant, the following criteria are used to judge the adequacy of the workpapers:

Clarity & Understandability – The workpapers should contain all necessary evidence so that anyone independent of the audit can review the workpapers and be able to follow them without having to ask questions of the individual(s) who prepared them. Although conciseness and avoidance of excessive detail is important, clarity and completeness should not be sacrificed.

Legibility & Neatness – Workpapers must be neat and legible to be useful. They should be prepared neatly at the outset and rewritten only as necessary. Internal auditors organize, index, and cross-reference the results of their audit work where possible, understanding the limitations due to lack of resources, as the audit progresses. Completed workpapers are to be finalized by audit number.

Custody & Retention – Workpapers often contain personal, private, proprietary, or sensitive information, and as such must be protected against any anticipated threats and hazards to the security or integrity of these records. During the audit, the workpapers are the responsibility of the internal auditor and must be adequately controlled and safeguarded. Electronic workpapers developed or obtained during an audit must be marked appropriately and kept for a time sufficient to meet legal and administrative requirements.

8.3 Physical Characteristics of Workpapers

Headings – Each workpaper shall be headed with a minimum of these three lines:

- Sutter County Internal Audit;
- Fiscal year end date or current date if applicable;
- The title and number of the audit; and
- The Official Use Only (OUO) designation.

Indexing: Electronic indexing is performed manually through a Table of Contents schedule. As previously discussed, at such time as resources are made available to purchase an electronic internal audit program, indexing will be automated in the software architecture.

Purpose: All workpapers shall contain the purpose for inclusion in the workpapers.

Sources: All workpapers shall identify the source of information in sufficient detail so that others can evaluate the source and trace the information back to that source. For example, the names of persons contacted to obtain information should be included, as well as their title. In most cases, it is preferable to show both the originator of a document as well as the source from which the internal auditor obtained the information.

8.4 Documented Work Performed

Workpapers are prepared by the internal auditor as the audit is conducted. As each section of the audit is completed, the respective section of workpapers shall be completed. The results of meetings, interviews, conferences, phone calls, etc., should be carefully recorded in the workpapers. This includes liaison visits, overall entrance and exit conferences, and progress meetings.

8.4.1 Interview/Oral Evidence Write-Ups

Include the following information:

- Name, position, and department of individual(s) interviewed;
- Names of the IA division staff members present;
- Date, time, and place of the interview; and
- Purpose and nature of subjects discussed in the interview.

Information received over the telephone is to be documented with the date and time of conversation, and the name, position, and department of the individual telephoned.

Oral evidence should be verified. If incorrect statements by sources are identified, the incorrect statements should be identified and cross-referenced to the (correct) facts.

8.4.2 Workpapers

Workpapers that state the objective of the test performed, and substantiate the validity and results of the tests performed are located in the fieldwork sections of the audit workpapers. The workpapers will also contain a legend to explain the meaning of any tick marks or other symbols used on the workpaper. Statements of “purpose” and “source” should be indicated on the workpaper. A glossary of terms may be included to eliminate any confusion in terminology related to more technical audits.

On completion of compliance and substantive tests from the program, a lead sheet summarizing work performed and conclusions reached is prepared. Exceptions are developed based on conclusions in the lead sheets. It is not the responsibility of the internal auditor to segregate report and non-report items at this time, but identify all concerns for final analysis and determination.

8.4.3 Lead Sheets

The workpapers should be considered a series of independent audit sections. Each section is an identifiable part of the audit and contains a lead sheet and the multiple items of information to support conclusions drawn as a result of performing particular audit program steps. Emphasis is made to complete the lead sheets promptly, accurately, and completely. Such a workpaper should assist the internal auditor in forcing timely analysis of the evidence, identification of additional work needed, and conclusions reached from the testing. A lead sheet would typically include the following:

- Objective – A clear statement of the purpose of the summary, usually the audit step(s) as written in the Audit Program. The objective should be cross-referenced to the Audit Program.
- Scope – A clear statement of the scope of the audit work performed for the section.
- Source of Information – A clear statement of where the information was gathered (interviews, observations, ledgers, files, etc.). This should be cross-referenced to backup/support documentation.
- Procedures Performed (Methodology) – A clear description of the steps taken to gather the information. This should be cross-referenced to the detailed workpapers.
- Sampling – Statistical or non-statistical, population size, and sample size are explained under this heading. Additionally, statistical sampling requires identification of a sampling objective, a maximum tolerable error rate, and sample selection procedures. Non-statistical sampling requires statements as to sampling objective, representativeness of sample, maximum tolerable error rate, and why informal or judgmental sampling was used.

- Information Obtained – A factual summary of the evidence. This should not contain conclusions drawn from the evidence, but should be cross-referenced to the detailed workpapers.
- Conclusions – An analytical summary of the facts as they pertain to the work performed in each section. All conclusions shall be used to tie together the evidence relating to similar findings and to consolidate all issues for resolution or reporting. This section does not include recommendations. Identified exceptions should be developed in the Exceptions section. An example of a lead sheet is presented in Exhibit 10.

8.4.4 Progress Meetings & Status

During the audit process, progress meetings are to be held with appropriate auditee management. The progress meetings are important because they provide an opportunity to discuss potential findings with the auditee to ensure that all pertinent facts have been obtained and that there is not another reasonable interpretation to the data analyzed. One method of ensuring that all potential findings are discussed with the auditee is to complete an Exception Report. The Exception Report documents potential findings, discussions with the auditee's management, and tentative disposition of the finding. The internal auditor is responsible for keeping the Auditor-Controller and appropriate auditee management informed of accomplishments and problems encountered during the audit, as well as the project completion status.

The Inspector General stresses the importance of these periodic meetings to verify facts obtained, and assists in efforts to determine the causes of problems identified.

A Progress Meeting Memo shall be written following the meeting detailing information exchanged, explanations given, attendees, and action items issued. The Progress Meeting Memo is to be included in the workpapers.

8.4.5 Next Audit Memo

The Next Audit Memo is to include a discussion of items that should receive special review or consideration when the next audit is performed on the audit topic. Suggested information would include pertinent information that would have led the internal auditor to design a test differently. Keep in mind

that this is to make the next internal auditor's job more efficient when performing an audit on the same topic.

8.4.6 Cross-Referencing

Cross-references should clearly tie the Audit Program to the section of the workpapers where the work was performed and easily lead reviewers to the related facts in other parts of the workpapers.

Cross-referencing eases the path of the next internal auditor who uses the workpapers for audit follow-up items, or when the audit topic is again reviewed.

Cross-referencing simplifies later retrieval of pertinent information when questions arise during the exit meeting.

Cross-referencing improves the final product: The IA Report. As the internal auditor prepares the preliminary draft report, well-referenced papers reveal their supporting information readily and helpfully.

Lead sheets and any workpaper summaries must be cross-referenced and traced to source documentation. Workpapers and lead sheets are not considered complete until cross-references are completed. This practice also eases the writing and summarizing process in that the internal auditors can more easily note the source or location of relevant material.

Normally, the internal auditor preparing a workpaper will also cross-reference it to any supporting documentation. The Auditor-Controller will ensure that all workpapers prepared by the audit staff have been properly cross-referenced.

In general, all facts shown in a workpaper (i.e., figures, amounts, dates, and titles) must show a source, be cross-referenced to identical support in other workpapers, or have an adequate explanation of how the internal auditor determined a particular fact. Mathematical calculations and totals must be proofed. A reviewer should not have to perform computations or obtain oral explanations to determine the source and validity of stated facts.

8.5 Internal Audit Software Workpaper Sections

Workpapers consist of three major sections, with pertinent subsections, outlined as follows:

1. Project Administration (PA):
 - Management Guidance
 - Progress Meetings
2. Audit Summary (AS):
 - Current Issues
 - Preliminary Draft Report
 - Draft Report
 - Final Report
 - Follow-Up
 - Reconciliation of Questioned Expenditures/Expenses
 - Quality Assurance Guidelines
3. Program Groups (CG):
 - Planning
 - Wrap-Up
 - Fieldwork Step

In each workpaper fieldwork section, the first workpaper will be that section's lead sheet, followed by evidence of the tests performed.

8.5.1 Project Administration

The PA section will contain pertinent management guidance and progress meeting memos, as well as standard exception reports discussed at progress meetings.

8.5.2 Audit Summary

The AS sections will contain current exceptions as well as the Preliminary Draft Report, the Draft Report, the Final Report, a reconciliation of questioned costs, and the IA Quality Assurance (QA) Guidelines checklist. This section may also contain any follow-up work performed on the findings.

8.5.3 Program Groups

The CG sections will include planning and wrap-up information, as well as documentation of fieldwork performed.

The Audit Planning subsection should include those items created in doing the detailed planning for the audit. Specific items in this section may include: A Planning Lead Sheet, Sutter County Policies and

Procedures; Department Organization Charts; Previous Audit Memos; Flowcharts and Systems Narratives; the Announcement Letter; Interview Notes; the Operational Risk and Techniques Matrix; a Conflict of Interest Form; the Entrance meeting handout, memo, and roster; the Audit Schedule, Peer Review documentation, and the Audit Planning Review Memo.

The Audit Wrap-Up subsection may include the Exit Meeting memo and any other related documentation related to the wrap-up of the audit.

The Audit Fieldwork subsection should include workpapers that state the objective of the test performed, and substantiate the validity and results of the tests performed. On completion of compliance and substantive tests from the program, a lead sheet summarizing work performed and conclusions reached is prepared. All exceptions from the lead sheets are to be identified in the Audit Summary section.

Example: The audit program may have several steps involving tests of vouchers. The internal auditor would combine the various tests to be performed simultaneously (for the most efficient use of time), file all related fieldwork in one section of the workpapers, summarize the results of the tests in one lead sheet (cross-referenced to the individual fieldwork performed), and identify conclusions reached and develop exceptions as appropriate.

8.6 Documentation of Supervisory Review

Supervision of internal auditors' work should be carried out continually to assure conformance with internal auditing standards and departmental policies and procedures. Supervision extends to training, employee performance evaluations, and time management, which are discussed in other sections of the audit manual. Supervision should be performed throughout the planning, fieldwork, reporting, and follow-up phases for all audit assignments. Supervision will be conducted in several ways and as the supervision is conducted, the responsibility for the audit expands to include the internal auditor conducting the audit fieldwork, the audit department, and the other IA personnel conducting the review of the audit as follows:

- After receiving the audit data sheets for a planned audit, the potential scope of the audit will be identified; the internal auditor-in-charge and the Auditor-Controller will determine the focus of the audit, which will usually be narrower than the audit data sheet; and the Auditor-Controller will approve the scope.
- The internal auditor-in-charge is responsible for the preparation of any memo to document significant revisions to the approved audit program. The Auditor-Controller will sign-off on the memo indicating approval of the revision.
- When there is only one internal auditor assigned to an audit, the Auditor-Controller will review the workpapers, including the preliminary draft report. Where a team audit is performed, the Auditor-Controller or the internal auditor-in-charge will perform the review. The reviewer will sign-off on the workpapers indicating that the review was performed. The Auditor-Controller will perform a final review.
- The internal auditor-in-charge will conduct progress meetings in regard to the fieldwork and the preparation of the audit report. The facts of the audit findings will be reviewed with the department being audited and the facts will be agreed on. Agreement in regard to the findings and recommendations will be documented in the workpapers as well as any disagreements. This is considered to be a form of review where the audited department has the opportunity to discuss the fieldwork and report before it is issued for the exit meeting. The audited departments are responsible for ensuring that the facts are properly presented in the workpapers and in the audit report. This may be documented in lead sheets or by progress meeting memos, which will appear in the Project Administration section.
- The Auditor-Controller or will review the lead sheets, progress meeting memos, the exceptions, and the preliminary draft audit report prior to its issuance for the exit meeting. This review will include discussion of report items with the internal auditor-in-charge. The Auditor-Controller will sign-off on the workpapers, the lead memos, the progress memos, the summary of exceptions, and the preliminary draft audit report indicating that the reviews were performed.

- Review comments are to be documented in the management guidance folders for each workpapers section and retained in the audit workpapers. These comments are to be prepared by the personnel conducting the review of the workpapers and reports. These comments are to be cleared prior to issuance of the preliminary draft report for the exit meeting by the internal auditor conducting the audit fieldwork. The person preparing the review comments ensures agreement with the way that the comments are cleared. After the review is completed, including the proper clearance of the comments, then both the internal auditor conducting the fieldwork and the reviewer are responsible for the workpapers.
- Differences of opinion between an internal auditor and the person conducting the workpaper and report reviews will be documented and presented in the workpapers. Resolution of differences of opinion or the lack of any resolution will be documented in the workpapers.
- During the follow-up phase of the audit, the Auditor-Controller may send out an evaluation form or “Quality Survey” (see Exhibit 11). The form will be completed and returned by the audited department to the Auditor-Controller directly. Comments on the form will be discussed with the internal auditor-in-charge.
- During the follow-up phase of the audit, the corrective actions that have been identified in the audit report will be tracked by the internal auditor. The internal auditor will follow-up on the status of corrective actions to be taken by management. The internal auditor will document the status of the corrective actions, including obtaining documents that explain how the corrective action was completed. The follow-up report, if necessary, will be provided to management after being reviewed and approved by the Auditor-Controller.

8.7 Workpaper Retention, Safeguards and Retention of Records

Internal auditors shall use reasonable care in safeguarding workpapers. Special safeguards should be used for storing and safeguarding confidential information, and other particularly sensitive material such as, plans for future operations, information obtained to support fraud investigations or department special requests. Under no circumstances is the internal auditor

to discuss audit issues with any non-Sutter County employee who does not have a need-to-know. Discretion should be used in discussing audit issues outside of a hard-walled office.

Workpaper Retention

Workpapers must be retained in the IA division in accordance with Sutter County Auditor-Controller IA resolutions.

The Auditor-Controller controls the release of records and should coordinate with county counsel prior to releasing such records to external parties, as appropriate.

Special Handling

Workpaper files, which contain confidential or sensitive information, will be subject to the same retention policies as those pertaining to other files. However, the storage, handling, and disposal requirements for these files may vary.

Section 9.0 – Current Issues Report

9.1 Current Issues Report

During the course of fieldwork, the internal auditor may uncover problems or situations that must be considered for inclusion in the final report. To ensure appropriate consideration, and eliminate the risk of “losing” an item, it is important to summarize all observations in one place. The Issues Report serves this purpose.

Each observation must be adequately cross-referenced to the detailed workpaper(s), and to the Preliminary Draft Report.

The Issue Report is created and is used to consolidate the conditions observed from the lead sheets and document the Auditor-Controller and auditee’s comments prior to issuance of the Preliminary Draft Report. It is used to develop the five elements of the audit finding essential to writing the audit report and to help the internal auditor adequately prepare for the final progress meeting with the auditees. An example of an Issues Report is presented in Exhibit 12 and would typically include the following:

- **Finding (Condition)** – a precise, conclusive statement from a lead sheet that describes the situation and provides an answer to an audit objective or test. It provides information that carries a meaning and leaves little room for interpretation.
- **Criteria** – explains the standard against which the subject in the condition is being measured. Usually Sutter County policy, accounting or control standards, government regulations, or some other authoritative source of policy.
- **Cause** – the most analytical and challenging element of a finding, the cause statement explains why a situation exists. Since an accurate identification of cause can only result from a complete understanding of the situation and cooperation with area management, this statement will always be unique to a particular conclusion.
- **Effect** – illustrates the importance, significance, or implications of a condition and is a description of the impact a situation has or will have on operations if it continues.
- **Recommendation** – directly addresses a condition or cause, calling for a change that will correct the situation identified. Recommendations should call for action and indicate a desired result. They should leave the specific implementation in the hands of auditees, and so should not outline detailed procedures. The best recommendations are brief, constructive, cost effective, and directed toward the condition or cause.
- **Auditor-Controller Comments** – if/when appropriate, the Auditor-Controller may request that immaterial items be submitted to management as “Non-Report Items”. The Auditor-Controller may also offer another reasonable explanation, or provide insight the internal auditor missed in drawing conclusions. If the internal auditor does not agree with the Auditor-Controller’s treatment of the finding, the internal auditor is required to document the disagreement (situation, why the disagreement, and outcome) and report it in the workpapers.
- **Comments** – used if another reasonable explanation or interpretation to the data analyzed is given; or if pertinent facts were omitted in analyses. Proof of any additional follow-up required by the internal auditor is to be recorded in the workpapers.

- **Workpaper Reference** – the cross-referencing from the lead sheet where the condition was observed; and the cross-referencing to the Preliminary Draft Report.
- **Management Response** – actions that management will take to respond to the recommendation.

9.2 Preliminary Draft Report

Every effort should be made to avoid any misunderstanding by the reader concerning the work that was and was not done to achieve the audit objectives, particularly when the work was limited by relying on internal controls or because of constraints on time or resources.

A Preliminary Draft Report is written (cross referenced to the workpapers) directly following the audit, and its objective is to provide a timely report of the audit findings and to solicit auditee input at the exit conference. The Preliminary Draft Report is always dated the last day of fieldwork.

The procedure to accomplish the above is to prepare a Preliminary Draft, and review it with the Auditor-Controller at the completion of fieldwork. A copy of the Preliminary Draft Report draft will also be provided to the IA staff for review and comments to the internal auditor through the peer review process. Comments, changes, and corrections will be incorporated in the report following the peer review, but prior to the Exit Meeting. The Preliminary Draft Report will be provided to the appropriate staff and management prior to the Exit Meeting.

Detailed comments will include, but not be limited to, a discussion of conditions observed, criteria, effect, cause, and recommendations.

9.3 Exit Meeting

An Exit Meeting is conducted with the audited department following the completion of the fieldwork and the issuance of a Preliminary Draft Report. The purpose of the meeting is to provide an opportunity to the audited department to review the written findings and formally comment on the recommendations made by the IA staff. There should be no “surprises” uncovered during this meeting. All findings should have been conveyed to the auditee during the fieldwork, and proposed recommendations should have been

negotiated with the appropriate staff prior to issuance of the Preliminary Draft Report.

The department's management should be invited to the meeting first. The meeting schedule should be center around the department's management schedule if the department's management is planning to attend. If not, the time and location for the Exit Conference should be centered on the Auditor-Controller's schedule, if possible.

A Preliminary Draft Report will be issued prior to the Exit Conference to allow for auditee review and comments at the Exit Conference. Prior to issuance, the Preliminary Draft Report should have been coordinated with the auditee, including the use of the Exception Report to avoid "surprise issues" at the Exit Meeting. The Preliminary Draft Report will be the focal point of the Exit Conference, allowing the auditee to make any reasonable last minute input or corrections.

The internal auditor is to inform the audited department of a projected date for issuance of the Draft Report, the projected date for management responses due back to IA, and the expected date of the Final Report issuance incorporating management responses.

The internal auditor-in-charge is also to remind the audited department that if applicable a copy of the IA report is sent to other appropriate recipients. The internal auditor is to thank the attendees and the department for cooperation and special considerations that may have been given to the internal auditors during the fieldwork.

An Exit Conference Meeting Memo is to be prepared by the internal auditor-in-charge directly following the meeting. Attendees, absentees, information exchanges, and commitments are to be documented for the workpapers.

9.4 Draft Report

A Draft Report incorporating exit conference comments/agreements is to be provided to the auditee. The audited department's management is requested to provide:

- (1) Concurrence or Non-concurrence of each finding;
- (2) A description of action which has been or will be taken to improve or correct the observation;

- (3) Identification of the responsible individual for action which remains to be taken; and
- (4) The expected date of completion.

A management response is required for each Detailed Comment to obtain an action plan for implementing the agreed-upon recommendation(s).

9.5 Management Responses

The management responses are incorporated into the Draft Report and reviewed with the Auditor-Controller.

9.6 Final Report

A Final Report will be prepared and issued after receiving acceptable management responses. The Final Report is to close out the audit and document management's comments to corrective actions. The Final Report is dated the last day of fieldwork, and is not changed unless additional fieldwork was required following the Preliminary Draft Report issuance.

The Final Report should include the department management responses received from the auditee following the Draft Report. The Final Report is distributed to all pertinent management and is the basis for the Open Action Items list. These items will remain open until the finding is formally closed by the IA staff.

The disposition of each item must be agreed to by the Auditor-Controller. It is not imperative that all conditions observed end up in the Final Report. Some can be resolved by bringing them to the attention of the appropriate auditee individual. Audit reports are judged by quality, not quantity.

Knowledge of the objectives of the audit, and the audit scope and methodology for achieving the objectives, is needed by the readers to understand the purpose of the audit, judge the merits of the audit work and what is reported, and understand any significant limitations. The statement of scope should describe the depth and coverage of audit work conducted to accomplish the audit's objectives. It should, as applicable, explain the relationship between the audit universe and what was audited, identify departments and geographic locations at which audit work was conducted and the time period covered, cite the kinds and sources of evidence used and the techniques used to verify it, and explain

any quality or other problems with the evidence. If unverified data are used, this needs to be stated. Any constraints imposed on the audit approach by data limitations or scope impairments are to be disclosed. The audit report should include a statement about the internal auditors' compliance with GAS *Standards*. IA is using this conformance phrase even though we have not undergone a peer review.

9.7 Audit Follow-Up

Audit follow-up is required in order to close "open action items" identified through the audit process. Open action items result from the audited department's management agreeing to make changes or take actions to correct an identified deficiency within the department, and they will remain open until IA is satisfied that the agreed-to corrective action, or a compensating remedy, has been completed. IA requests that the auditee's expected dates of completion not exceed three months from the date of the Preliminary Draft Report. However, more complex or expensive issues may require more time for resolution.

It is the internal auditor's responsibility to contact the audited department and verify that corrective measures have been implemented and are working. The internal auditor must then write the current status of the recommendation on a Follow-Up Status Report form in order to close the finding or revise the due date of the action item. An example of a Follow-Up Status Report is presented in Exhibit 13. Progress made by the auditee is to be noted in the status report as well as the internal auditor's recommendation with regard to closure.

The Follow-Up Status Report is then given to the Auditor-Controller for concurrence.

If the internal auditor's recommendation is for the action item to remain open, the item will be reviewed for status in the following quarter.

If the internal auditor's recommendation is for closure and the Auditor-Controller agrees, the form is signed and the finding/open action item is closed.

If the internal auditor's recommendation is for closure and the Auditor-Controller disagrees, the internal auditor will be requested to provide additional information.

Each internal auditor is responsible for conducting audit follow-up of open action items pertaining to his/her audits. Audits are not formally closed until all action items are resolved.

Follow-Up Status Reports are summarized and provided quarterly to the Sutter County CAO and the BOS, as well as to department management. This Open Action Item Report identifies all open action items and completion due dates and is the responsibility of the Auditor-Controller.

9.8 Annual Report of Audit Activities

An Annual Report of Audit Activities is to be provided Sutter County BOS by the beginning of each fiscal year. The report is to summarize IA division activities and performance for the previous fiscal year and include:

- the activities of the IA division during the fiscal year with respect to audits and special requests performed;
- a list of scheduled audits and special requests carried over to the next fiscal year;
- questioned or unsupported expenditures/expenses reported during the fiscal year; and
- a summary of significant findings presented in the issued reports.

This report should compare performance with department goals and work schedules and budgeted expenditures/expenses. It should explain reasons for major variances and indicate any action taken or needed. Audit schedules, time reports, and throughput statistics should be used in compiling this information, along with cost performance reporting pertaining to the department.

9.9 Peer Reviews of the IA Division

Internal reviews should be performed periodically by members of the IA staff and by internal auditors from other Counties. The dual peer review process is to appraise and help improve the quality of audit work conducted by the IA division.

These peer reviews are primarily for the purpose of providing an assessment of the IA division. The reviews should be structured so as to indicate the degree of compliance with the GAS (Yellow Book) and IIA (Red Book) standards, the level of effectiveness, and the extent of compliance with IA division policies

and procedures. The reviews should provide recommendations for improvement.

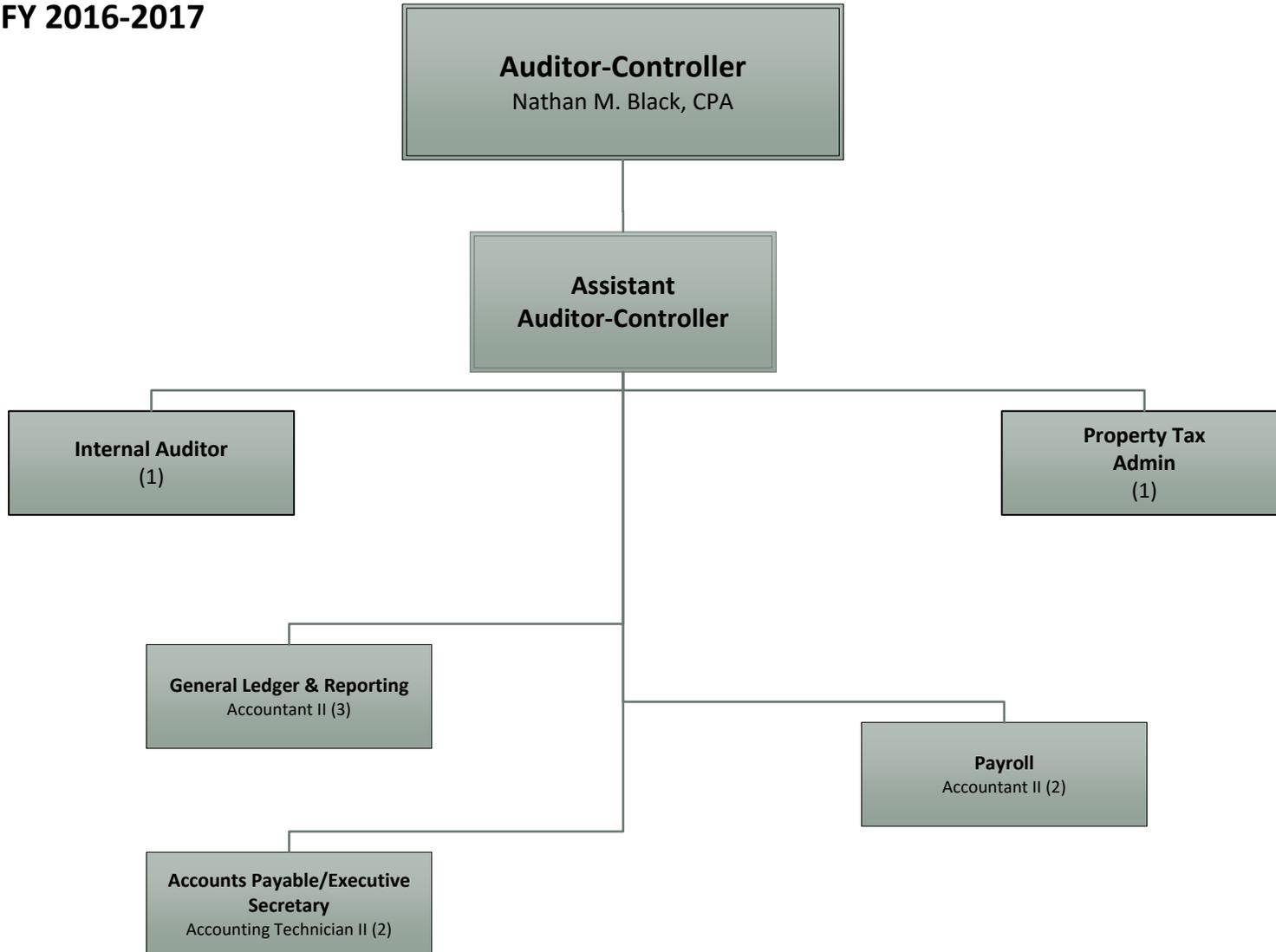
The peer review process will be completed primarily through the supervisory review process, which is outlined in Section 8.6, *Documentation of Supervisory Review*. Staff meetings and audit issues meetings will be the forum for discussing overall improvements to the quality of work being conducted by the IA division.

Section 10.0 – Audit Quality Surveys

10.1 Introduction

Periodic audit quality survey questionnaires (Exhibit 11) will be sent to auditees following completion of selected audits in order to obtain feedback on how the audit process can be improved. This process will elicit auditee management's perception of the IA division and any suggestions to make IA more effective and responsive to management's needs.

**Auditor-Controller
FY 2016-2017**





COUNTY OF SUTTER...established 1850

Donna M. Johnston

County Clerk-Recorder – Registrar of Voters – Clerk of the Board of Supervisors

**CERTIFIED MINUTE ORDER FROM THE SUTTER COUNTY BOARD OF SUPERVISORS
SESSION OF APRIL 26, 2016, PORTION OF MINUTE BOOK 3-N, PAGES: 295-296**

36) Establishment of an Internal Audit Program

Curtis R. Coad, Interim County Administrative Officer, discussed the item and recommended action.

Nathan Black, Auditor-Controller, spoke in support of the Internal Audit Program.

A lengthy discussion and question/answer period was held.

The following individuals spoke in support of an Internal Auditor position:

1. Sandra Gilbert
2. Pat Mecklinburg
3. Dean (no last name given)
4. Matt Conant
5. Steve Devalentine.
6. Elaine Miles

On motion of Supervisor Whiteaker , seconded by Supervisor Flores and carried as follows:

AYES: Supervisors Sullenger, Flores, Munger, Whiteaker and LeVake; NOES: None; the Board: 1) adopted the job description for the new classification of Senior Internal Auditor at salary range PRO41 (\$4,910-\$6,024 mo.) and allocated the classification to the Professional Unit; 2) added one Senior Internal Auditor (PRO41) position to the Auditor-Controller's Budget (1-201); 3) amended the position allocation schedule for the Auditor-Controller's Office budget to reflect the changes; and 4) approved an Internal Audit Policy, which sets forth the procedures which will govern the Internal Audit Program.

The Foregoing instrument is a Correct Copy
of the Original on File in this Office:

SEP 20 2016

DONNA M. JOHNSTON, County Clerk and
ex-officio Clerk of the Board of Supervisors of the
State of California in and for the County of Sutter
By  Deputy

Registrar of Voters
1435 Veteran Memorial Circle
Yuba City, CA 95993
Tel: (530) 822-7122
Fax: (530) 822-7587

Clerk-Recorder
433 Second Street
Yuba City, CA 95991
Tel: (530) 822-7134
Fax: (530) 822-7214

Clerk of the Board of Supervisors
1160 Civic Center Blvd. Suite A
Yuba City, CA 95993
Tel: (530) 822-7106
Fax: (530) 822-7103



County of Sutter

Office of the County Administrator

1160 Civic Center Boulevard
Yuba City, California 95993
Phone: (530) 822-7100 Fax: (530) 822-7103

April 26, 2016

TO: Board of Supervisors

SUBJECT: Establishment of Internal Audit Program and Related Actions

Recommendations:

The Interim County Administrative Officer and the County Auditor-Controller are jointly recommending that the Board of Supervisors establish a County Internal Audit Program.

To do so, we recommend the Board:

1. Approve the recommendations in the enclosed report prepared by the Human Resources staff. The recommendations basically establish a Senior Internal Auditor position in the Auditor-Controller's Office.
2. Approve the enclosed Internal Audit Policy, which sets forth the procedures which will govern the Internal Audit Program.

If you approve the above recommendations, no changes will be necessary in the current fiscal year County Budget. The Senior Internal Auditor position will be included in the Fiscal Year 2016-17 County Budget. The initial annual cost of the position, depending on the salary step the individual is hired at, will be between \$93,959 and \$111,485. We believe the cost of the position will be completely offset by increased revenue in the Auditor-Controller's budget.

Background/Discussion:

The Auditor-Controller proposed the addition of an Internal Auditor in his FY 2015-16 budget request. During the budget public hearing, which was held on June 23, 2015, there was a lengthy discussion concerning the Internal Auditor request. Subsequently, the Board of Supervisors directed staff to find a funding mechanism to support an Internal Auditor position.

In recent months, the Interim CAO and the Auditor-Controller have, with the assistance of our respective staffs and the Human Resources Department, carefully examined the issue of establishing an Internal Audit Program and determining how it could be funded. We are in full agreement that the establishment of an Internal Audit Program at this time would be very beneficial to the County, particularly in light of other improvements that are being made in our financial operations.

While several specific examples could be cited, we believe the Board, from its previous discussions, is aware of the potential benefits of an Internal Audit Program. These benefits would include the detection of illegal activities, a reduction in losses due to embezzlement, a reduction in the misuse of funds, improvement in efficiencies and the likelihood of grant funding, an improvement in financial accountability, and a reduction of various County expenditures.

If you concur, the Internal Audit Program would be conducted pursuant to the enclosed Internal Audit Policy. The Policy provides, in part, that the Auditor-Controller will develop, in consultation with the CAO, an Annual Audit Plan. The Plan will be submitted to the Audit Committee for review and approval. The Auditor-Controller will ensure that all audits and reports are reviewed with the appropriate County management personnel (usually a Department Head) before a final report is issued, and ensure that these management personnel have ample time to respond to the Report if they wish to do so. The audits will be independent in the sense that the Auditor-Controller is a separate Elected Official, but collaborative in the sense that the Auditor-Controller and County management personnel will work together to resolve any issues identified in the audit.

We feel that the first person hired to implement the Internal Audit Program should be an experienced accountant/auditor who has the ability to work independently. Consequently, we're recommending you approve the position of Senior Internal Auditor. The job description for this classification is included in the enclosed report from the Human Resources Department.

The annual cost of the Senior Internal Auditor would be, depending on the salary step at which the position is filled, between \$93,959 and \$111,485. The County Cost Plan reimbursement rate for the Auditor-Controller's office is approximately 44%, which (at the top salary step of the position) would amount to a federal reimbursement of about \$49,000. A new revenue (E payable) in the Auditor-Controller's budget is expected to total approximately \$60,000 in the next fiscal year. Also, the County will save \$7,500 annually by the transfer of the SB90 responsibility to the Auditor-Controller. These figures, which in themselves offset the cost of the position, do not include any savings which may result from the implementation of the Internal Audit Program.

A few concluding remarks. The implementation of an Internal Audit Program will provide the County with an important additional safeguard against illegal activities. However, we want to emphasize that the Program is not about finding fault with people. It's ultimately about County employees working professionally and collaboratively to improve our operations and service to the public.

Alternatives:

The Board may choose to not approve the recommendations.

Action Following Approval

If the recommendations are approved, the Human Resources Department will conduct a recruitment for the Senior Internal Auditor position. The Auditor-Controller and the Interim CAO will commence the implementation of the Audit Policy.

Fiscal Impact

No changes will be necessary in the current County Budget. Sufficient savings exist within the Auditor-Controller's budget to pay the cost of the position in the event it is filled prior to the end of the fiscal year. The position will be included in the Fiscal Year 2016-17 County Budget. As discussed, the position's cost should be offset by additional revenues.

Attachments

Internal Auditor job specifications and classification
Internal Audit Policy

Respectfully Submitted,

Curtis R. Coad
Interim County Administrative Officer

Nathan Black
Auditor-Controller

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

- **Objectivity**

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

- **Confidentiality**

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

- **Competency**

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

County of Sutter
Established: 4/26/16
Salary Range: PRO41
FLSA: Exempt

SENIOR INTERNAL AUDITOR

DEFINITION

Under general direction, plans, coordinates and conducts a variety of complex financial, compliance and performance audits of county departments, programs, special districts and trust funds. Makes recommendations regarding improving systems, controls, and procedures to assist management in maintaining a comprehensive framework of internal controls and ensure efficiency and effectiveness in operations.

CLASS CHARACTERISTICS

This is a single position-classification in the Auditor-Controller's Office which exercises considerable independent judgement in performing audits and making recommendations regarding improving internal controls, and procedures for the county's internal audit program. Incumbents are expected to use professional accounting judgement and apply generally accepted auditing standards in all assignments. Work is performed within a broad framework of general policy and is judged primarily on overall results with great latitude in determining work methods and assignment requirements. Employee exercises authority over assignments and makes decisions required to complete the work. May exercise technical/functional supervision over auditing, technical and support staff.

EXAMPLES OF ESSENTIAL DUTIES

The following duties are normal for this position. These are not to be construed as exclusive or all-inclusive. Other related duties may be required and assigned.

1. Audits and reconciles revenues, expenditures and technical transactions for the County and Special Districts in compliance with all applicable federal, state and county rules, regulations and ordinances.
2. Reviews, investigates, and identifies errors and inconsistencies in financial entries, transactions, documents and reports.
3. Participates in the development and implementation of goals, objectives, policies, and priorities for assigned programs.
4. Assists in the development and implementation of an annual audit plan to mitigate risks and ensure adequate accountability of all county funds/departments/programs.
5. Researches, audits and analyzes technical transactions and uses financial models to resolve questions and

- validate data; assures fiscal accountability and fund integrity for all transactions, allocations, distributions, and documentation.
6. Audits financial information system database; checks and verifies expenditures, billings, collections, journal entries and fund balance as needed.
 7. Reconciles revenues, allocations and expenses according to schedules; reconciles and resolves differences; assures the accuracy of the financial records.
 8. Reviews department and/or program accounting procedures and policies and makes recommendations.
 9. Consults with department heads, management and staff to determine solutions to problem areas in accounting, compliance and/or operations. Acts as a resource and technical expert for county departments, special districts, management, and staff on accounting and auditing procedures; interprets and explains state and local laws, rules, and regulations.
 10. Presents report findings and recommendations to management, County audit committee, external agencies, and the Board of Supervisors, as appropriate.
 11. Monitors compliance with, and also maintains professional competence in auditing and accounting principles and techniques; reviews and applies new or revised laws, regulations, and accounting standards.
 12. Performs audits as required on complex accounting systems, on highly confidential matters, and for special investigations requested by management that may be major in scope.
 13. Participates in audit committee and other department and county meetings; attends training.
 14. Performs special projects that have an impact on the financial accountability in the county.
 15. May exercise technical/functional supervision over auditing, technical, and/or support staff.

MINIMUM QUALIFICATIONS

Knowledge of: Generally accepted accounting and auditing principles, practices and procedures related to Public Sector financial administration; Governmental Accounting Standards Board (GASB), Financial Accounting Standards Board (FASB), and other regulatory agencies; Government Finance Officers Association (GFOA) standards, recommended practices, and policies; principles and practices of accounting, mathematical and statistical computations; accounting principles, procedures and techniques to track and maintain large and complex financial systems; practices in auditing local government; office procedures, methods, and equipment including computers and applicable software applications including specialized applications related to area of assignment; effective verbal and written communication skills. Knowledge of Sutter County organization,

operations, policies and procedures, and accounting and budgeting systems desired.

Ability to: Ability to read, interpret, understand and apply accounting standards and procedures, applicable state and federal rules and regulations, and Sutter County policies and procedures; analyze and interpret financial reports, statistical data and documents; audit and validate financial and accounting information systems; prepare a variety of complex financial statements, reports, and analyses; perform extensive audits of complex accounting systems and make recommendations for improvements of policy, procedures, and internal controls; write clear, concise and comprehensive audit reports; evaluate, develop and implement complex accounting systems; apply auditing standards to complex audit projects; possess outstanding planning, organizational and time management skills; prioritize and multi-task while undertaking multiple projects simultaneously; make presentations of technical topics to management and board of supervisors; work closely and collaborate with the department's managerial team members; ability to utilize software applications related to area of assignment; establish and maintain cooperative working relationships with staff and others contacted during the course of work.

Education and Experience: A Bachelor's degree from an accredited college or university in accounting, business administration, finance, public administration or related field; three years of progressively responsible experience in accounting, finance, and/or financial analytical work that would demonstrate the possession of the above knowledge, skills, and abilities; or any combination of education and experience that provides equivalent knowledge, skills, and abilities. A Master's degree in public or business administration is desirable.

Special Requirements: Essential Duties require the following physical skills and work requirements: Requires the ability to maintain mental capacity which allows the capability of exercising sound judgment and rational thinking under varied circumstances; requires the ability to exert a small amount of physical effort in sedentary to light work involving moving from one area of the office to another; ability to see; ability to hear and communicate orally; may require prolonged visual concentration requires sufficient hand/eye coordination to perform semi-skilled repetitive movements, such as using a computer, ten-key adding machine, or use of other office equipment or supplies; ability to operate a motor vehicle.

License or Certificate: Must possess and maintain a valid California driver's license. A CPA (Certified Public Accountant), CIA (Certified Internal Auditor), and/or CFE (Certified Forensic Examiner) is desired.

The County of Sutter is an Equal Opportunity Employer. In compliance with the Americans with Disabilities Act, the County will provide reasonable accommodation to qualified individuals with disabilities. Sutter County encourages both incumbents and individuals who have been offered employment to discuss potential accommodations with the employer.

County of Sutter
Auditor-Controller
463 2nd Street
Yuba City, California 95991



-
1. AUDIT NUMBER IA2016-01
 2. AUDIT TITLE insert audit title
 3. AUDIT OBJECTIVE(S)

To determine whether insert high level object (this would be the planning objective identified for annual planning).

4. ESTIMATED STAFF HOURS 700
5. ESTIMATED DATES
 - a. Start..... 10/2008
 - b. Complete..... 02/2009

County of Sutter Auditor-Controller
INTERNAL AUDIT
{Audit Title, No.}
Official Use Only

An entrance meeting was held for the FY 2016 [*insert audit title*] audit on [*insert date, time and location of meeting*].

The auditor [*insert auditor name*] explained the audit objective is to determine [*insert audit objective and include detail of areas or department, i.e., compensation, accounts payable, and/or Auditor-Controller, CAO, etc.*]. The auditor [*insert auditor name*] also explained the audit scope.

The auditor [*insert auditor name*] will ask auditee has any questions or comments concerning the audit objective and scope to be addressed at this time. If possible the auditor will address all relevant questions or comments during the entrance meeting. If

The auditor will document attendees (see entrance meeting roster) and the relevant discussions audit questions during the meeting to be included with work papers

County of Sutter Auditor-Controller
 INTERNAL AUDIT
 {Audit Title, No.}
 Official Use Only

Scope:.....

PHASE I PLANNING					
ITEM No.	AUDIT OPERATION	REF.	Auditor Initials	Reviewer Initials	DATE
1	Create Planning Lead Sheet.				
2	Insert Audit Data Sheet from annual for audit.				
3	Complete and include Conflict of Interest form.				
4	Issue Announcement Letter				
5	Obtain and review contract clauses, written policies and procedures, and desk procedures, to (i) determine the controls in place, and (ii) assist in preparation of the flowchart.				
6	Conduct preliminary interviews to identify current internal control practices with regards to protecting and safeguarding documents.				
7	Prepare flowchart(s) to reflect understanding of the process from steps performed above. Request the auditee to verify the accuracy of the flowchart and identify any discrepancies.				
8	Prepare the Risk & Techniques Matrix to assist in the development of the audit program and definition of the audit scope and objectives.				
9	Define the audit objectives and scope, and prepare the audit program. Review with audit management.				
10	Develop audit schedule				
11	Conduct Peer Review. Incorporate the appropriate revisions resulting from the Peer Review. Prepare the Peer Review Memo.				
12	Conduct an Entrance Meeting with appropriate management. Incorporate auditee comments into audit program. Prepare an Entrance Meeting Memo.				
13	Begin QA Checklist.				
	Final Approval of Planning				

PHASE II - FIELDWORK

ITEM No.	AUDIT OPERATION	REF.		Reviewer Initials	DATE
1	Create Fieldwork Lead Sheet.				
2	Select a sample.....				
3	Select a sample.....				
4	Select a sample.....				
5	Select a sample.....				
6	Contact ? and discuss: Whether any sites have failed to use.				
7	Contact ? and discuss: The frequency.....				
8	Contact ? and discuss: The frequency.....				
9	Verify.....				
10					
11					
12					
13					
14	Final Approval of Fieldwork				

PHASE III - REPORTING

ITEM No.	AUDIT OPERATION	REF.		Reviewer Initials	DATE
1	Create Reporting Lead Sheet.				
2	Prepare summary of exceptions				
3	Prepare Preliminary Draft Report				
4	Submit preliminary draft report and work papers for management review.				
5	Conduct Peer Review. Make peer review revisions, as appropriate, to preliminary draft report. Prepare Peer Review memo.				
6	Schedule and conduct Exit Meeting. Prepare Exit Meeting memo. Make exit-meeting revisions, as appropriate, to preliminary draft report. Prepare formal draft report.				
7	Issue formal draft report for management response.				
8	Incorporate management responses. Prepare final report.				
9	Prepare summary of exceptions				
10					
11					
12					
13					
14	Final Approval of Reporting				

County of Sutter Auditor-Controller
INTERNAL AUDIT
{Audit Title, No.}
Official Use Only

Lead Sheet for Audit Planning - Procedure Summary {[hyperlink to planning doc](#)}

Objective: {insert your objective, i.e., to verify.....}

Audit Program Steps Addressed: Phase II,

Auditor:

Source of Information:

Procedures Performed:

Sampling:

Information Obtained:

Conclusion:

Sutter County Auditor-Controller Internal Audit's Feedback Survey Official Use Only

AUDIT/REVIEW REPORT TITLE:

AUDITEE/ ENTITY:

The rating scale provided below is from 5 (strongly agree) to 1 (strongly disagree).

	Audit Team Quality	5 strongly agree	4 agree	3 Neither agree nor disagree	2 disagree	1 strongly disagree	Not done
1	Opening conference was held and all questions/comments were adequately addressed.						
2	The final audit objectives and scope were agreed to.						
3	The audit team was knowledgeable about your business.						
4	The audit was completed within the timeframe communicated.						
5	The audit was conducted efficiently and effectively with minimal disruption to your business.						
6	The audit was conducted in a professional and courteous manner.						
7	The audit team kept you informed of key issues throughout the audit.						
8	All of your key business concerns/risks were addressed during the audit.						
9	The closing conference allowed both sides to adequately discuss and address all comments.						
10	The audit report was accurate and findings clearly communicated.						
11	The audit report fairly reflected your team's comments and corrective action.						
12	The overall audit provided value to your area.						

Please provide any comments below. Your comments matter and will be used as a tool to help develop and improve the Internal Audit division. What suggestions do you have to improve future audit quality?

Thank you for completing the above survey!

Please return to:

County of Sutter
Auditor-Controller
Attn: Nathan M. Black, CPA
463 2nd
Yuba City, CA 95991
Or send it via email to: nblack@co.sutter.ca.us

County of Sutter
Auditor-Controller
Insert Audit name and number
Official Use Only

Issues

ISS.1 – insert audit issue

Finding (Condition):

Criteria:

Cause:

Effect/Consequence:

Recommendation:

Management Response:

County of Sutter
Auditor-Controller
Insert Audit name and number
Official Use Only

ISS.2 – insert audit issue

Finding (Condition):

Criteria:

Cause:

Effect/Consequence:

Recommendation:

County of Sutter
Auditor-Controller
Insert Audit name and number
Official Use Only

Management Response:

COUNTY OF SUTTER AUDITOR-CONTROLLER
INTERNAL AUDIT
FOLLOW-UP WORK PERFORMED
Official Use Only

<u>Date Due:</u>	insert date
<u>Audit Title:</u>	insert audit title
<u>Audit Number:</u>	insert audit no
<u>Issue Number:</u>	insert audit finding number
<u>Issue Summary:</u>	insert issue summary
<u>Recommendation:</u>	insert recommendation made in audit report