

# Audit Manual

## Conducting Performance Audits In Accordance with the Yellow Book

**June 2008**

*Revised February 2009*

*Revised September 2010*

*Revised September 2013*

*Revised January 2017*

*Revised June 2019*

*Revised November 2022*

**CITY AUDITOR**  
**CITY OF SAN DIEGO**

# Section 1

## Introduction and Overview

### Purpose

The purpose of this audit manual is to guide Office of the City Auditor staff in conducting or overseeing financial and performance audits as required by the City Charter, Ordinance, or derived from the Citywide risk assessment. This manual describes the audit function, and documents how the Office of the City Auditor meets and complies with generally accepted government auditing standards (GAGAS) as set forth in the Government Auditing Standards, July 2018 Revision, commonly referred to as the Yellow Book, issued by the U.S. Government Accountability Office. The Audit Manual references GAGAS, and helps Office of the City Auditor staff plan, organize, and conduct performance audits, and informs staff how to develop and report audit findings in accordance with Government Auditing Standards.

The San Diego Office of the City Auditor Manual is comprised of the following sections:

Section 1	Introduction and Overview
Section 2	Adherence to Government Auditing Standards
Section 3	Field Work Standards for Performance Audits
Section 4	Audit Process—Planning to Fieldwork
Section 5	Elements Critical To Successful Fieldwork
Section 6	Reporting Audit Results
Section 7	Audit Workplan, Recommendations, and Communications
Section 8	Fraud Hotline
Section 9	Application Guidance on Internal Control, Abuse, Fraud and Assessing the Significance of Laws, Regulations, or Provisions of Contracts or Grant Agreements
Section 10	Application Guidance for Agreed-Upon Procedures Attestation Engagements
Section 11	Guidelines for Recording and Reviewing Working Papers in MKInsight

On a periodic basis, Audit management will review and update the audit manual as necessary to ensure compliance with Government Auditing Standards.

Section 1 describes the Office of the City Auditor's mission and authority and describes the various types of audits that the City Auditor may conduct. This manual will be updated as needed to keep the office current with progress in the field of auditing or changes to auditing standards.

## **Mission**

The Office of the City Auditor is an independent office that reports to and is accountable to the Audit Committee and City Council. The City Auditor conducts primarily performance audits of City departments, offices, and agencies in accordance with government auditing standards.

The audits may assess internal controls over financial reporting and evaluate how well the City complies with all applicable laws, rules and regulations; achieves stated goals and objectives; reports financial and performance information (reliability); efficiently and effectively uses resources; and safeguards and protects assets.

The Department's mission is:

***To advance open and accountable government through accurate, independent, and objective audits and investigations that seek to improve the efficiency, effectiveness, and equity of City government.***

The City Auditor will conduct all audit work in accordance with GAGAS and provide decision makers with audits that are timely, accurate, and objective.

## **Types of Audits and Attestation Engagements**

Government Auditing Standards establishes and defines the types of engagements that audit organizations may perform. These engagements include performance and financial audits, and attestation engagements. The standards also define nonaudit services.

## **Performance Audits**

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.<sup>1</sup>

<sup>1</sup> Reporting information without following GAGAS is not a performance audit but a nonaudit service provided by an audit organization.

Performance audits that comply with GAGAS provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

#### *Performance Audit Objectives May Vary*

Audit standards have established that performance audit objectives may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an initial objective of program effectiveness may also involve an underlying objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved.

**Program effectiveness and results, along with audit objectives** are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results. Examples of audit objectives in these categories include:

- a. assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
- b. assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
- c. analyzing the relative cost-effectiveness of a program or activity;
- d. determining whether a program produced intended results or produced results that were not consistent with the program's objectives;
- e. determining the current status or condition of program operations or progress in implementing legislative requirements;
- f. determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;

- g.** assessing the extent to which programs duplicate, overlap, or conflict with other related programs;
- h.** evaluating whether the audited entity is following sound procurement practices;
- i.** assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
- j.** assessing the reliability, validity, or relevance of financial information related to the performance of a program;
- k.** determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;
- l.** determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;
- m.** determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;
- n.** determining whether fees assessed cover costs;
- o.** determining whether and how the program's unit costs can be decreased or its productivity increased; and
- p.** assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.

### **Performance Audits Can Include Internal Control Objectives**

Internal control audit objectives relate to an assessment of the component of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control comprises the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance. Examples of audit objectives related to internal control include an assessment of the extent to which internal control provides reasonable assurance about whether:

- a.** organizational missions, goals, and objectives are achieved effectively and efficiently;
- b.** resources are used in compliance with laws, regulations, or other requirements;
- c.** resources, including sensitive information accessed or stored outside the organization's physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;

- d. management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;
- e. the integrity of information from computerized systems is achieved; and
- f. contingency planning for information systems provides essential back-up to prevent unwarranted disruption of the activities and functions that the systems support.

**Compliance audit objectives** relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives include determining whether

- a. the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with laws, regulations, contract provisions, grant agreements, and other requirements;
- b. government services and benefits are distributed or delivered to citizens based on the individual's eligibility to obtain those services and benefits;
- c. incurred or proposed costs are in compliance with applicable laws, regulations, and contracts or grant agreements; and
- d. revenues received are in compliance with applicable laws, regulations, and contract or grant agreements.

**Prospective analysis audit objectives** provide analysis or conclusions, about information that is based on assumptions about events that may occur in the future along with possible actions that the audited entity may take in response to the future events. Examples of objectives pertaining to this work include providing conclusions based on:

- a. current and projected trends and future potential impact on government programs and services;
- b. program or policy alternatives, including forecasting program outcomes under various assumptions;
- c. policy or legislative proposals, including advantages, disadvantages, and analysis of stakeholder views;
- d. prospective information prepared by management;
- e. budgets and forecasts that are based on (1) assumptions about expected future events and (2) management's expected reaction to those future events; and
- f. management's assumptions on which prospective information is based.

## **Financial audits**

The Yellow Book defines financial audits as:

An audit primarily concerned with providing reasonable assurance about whether financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP), or with a comprehensive basis of accounting other than GAAP. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include:

- providing special reports for specified elements, accounts, or items of a financial statement;
- reviewing interim financial information;
- issuing letters for underwriters and certain other requesting parties;
- reporting on the processing of transactions by service organizations; and
- auditing compliance with regulations, relating to federal award expenditures and other governmental financial assistance, in conjunction with or as a by-product of a financial statement audit.

## **Attestation engagements**

The Yellow Book defines an attestation engagement as:

An engagement concerned with examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. Possible subjects of attestation engagements could include reporting on:

- an entity's internal control over financial reporting;
- an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- the effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- management's discussion and analysis presentation;
- prospective financial statements or pro-forma financial information;
- the reliability of performance measures;
- final contract cost;
- allowability and reasonability of proposed contract amounts; and
- specific procedures performed on a subject matter (agreed-upon procedures).



## **Nonaudit Services**

The Yellow Book establishes that audit organizations that provide nonaudit services (professional services) must communicate to management that the scope of work performed does not constitute an audit under the yellow book. Further, audit organizations that provide nonaudit services must evaluate whether providing nonaudit services creates an independence impairment in fact or appearance with respect to the entities they audit. Nonaudit services are covered in Section 2 of the Audit Manual.

### **Office of the City Auditor Policy**

Unless noted, the type of audit work Office of the City Auditor performs will be considered performance audits. As a result, Office of the City Auditor will conduct all of its audits under the performance audit standards. We should note that Office of the City Auditor does not perform the City's financial audits because the City hires an external auditor to conduct the financial statement audits.

## **Auditor Review of Audit Handbook**

Auditors have a responsibility to remain aware and up to date regarding office policies and procedures. Each auditor is given a copy of the Audit Manual (or provided access to an electronic version) for their review. Each auditor is responsible for reading and understanding the requirements promulgated in the Audit Handbook. Where auditors have questions related to policies and procedures, the auditor shall approach an audit manager to obtain clarification. From time to time, the office may issue directives to address pressing issues. Directives may be integrated into the Audit Handbook when the office conducts its periodic annual review of the quality control system.

### **Office of the City Auditor Policy**

Each auditor shall complete a written form indicated that they have received a copy (of access), read, and understand the office Audit Handbook.

## **Ethical Principles in Government Auditing**

The July 2018 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those conducting audits in accordance with the standards. Section II of the Audit Manual identifies the five key ethical principles and establishes the policy of requiring all auditors in the Office of the City Auditor to adhere to those principles.

Government Auditing Standards Section 3.03 establishes the following:

Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with generally accepted government auditing standards (GAGAS) to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment for the audit organization.

## Ethical Principles

The following ethical principles provide a framework for applying GAGAS. Each principle is described, so that auditors can consider the facts and circumstances of each situation within the framework of these ethical principles.

Ethical Principle	Description
<b>Public Interest</b>	<p>The public interest is defined as the collective wellbeing of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.</p> <p>A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.</p>

<p><b>Integrity</b></p>	<p>Public confidence in government is maintained and strengthened by auditors' performing their professional responsibilities with integrity. Integrity includes auditors' conducting their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.</p> <p>Making decisions consistent with the interest of the program or activity under important part of the principle of integrity. In discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.</p>
<p><b>Objectivity</b></p>	<p>The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity.</p>

Ethical Principle	Description
<p><b>Proper Use of Government Information, Resources, and Position</b></p>	<p>Government information, resources, to be used for official purposes and not inappropriately for the auditor's personal manner contrary to law or detrimental to interests of the audited entity or the audit concept includes the proper handling classified information or resources.</p> <p>In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.</p> <p>Accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities is an important element in the public's expectations for auditors.</p> <p>Misusing the position of an auditor for personal gain violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.</p>

Ethical Principle	Description
<b>Professional Behavior</b>	<p>High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient.</p> <p>Professional behavior includes auditors' putting forth an honest effort in performance their duties and professional services in accordance the relevant technical and professional standards.</p>

### **Office of the City Auditor Policy**

The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest in writing that they will adhere to and follow the identified principles. In the event, the City Auditor or audit staff cannot comply with or adhere to the identified principles, they should immediately notify their appointing authority of the circumstances involving the ethical principles. See Annual Ethical Principle Statement below. Also, see below the Office of the City Auditor's Policy on Gifts and Form 700 Reporting, which all audit staff are required to follow to ensure they avoid circumstances that create a threat of bias that could impair independence.

## **Annual Ethical Principle Statement**

### **Office of the City Auditor**

### **City of San Diego**

The July 2018 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those who conduct audits in accordance with the standards. The ethical principles involve 1) public interest, 2) integrity, 3) objectivity, 4) proper use of government information, resources, and position, and 5) professional behavior. The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles listed below. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest that they will adhere to and follow the identified principles.

#### **Public Interest**

The public interest is defined as the collective well being of the community of people and entities the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities assists auditors in meeting the principle of serving the public interest and honoring the public trust. These principles are fundamental to the responsibilities of auditors and critical in the government environment.

A distinguishing mark of an auditor is acceptance of responsibility to serve the public interest. This responsibility is critical when auditing in the government environment. GAGAS embody the concept of accountability for public resources, which is fundamental to serving the public interest.

#### **Integrity**

Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors performing their work with an attitude that is objective, fact-based, nonpartisan, and non-ideological with regard to audited entities and users of audit reports. Within the constraints of applicable confidentiality laws, regulations, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the engagement are expected to be honest, candid, and constructive.

Making decisions consistent with the interest of the program or activity under important part of the principle of integrity, discharging their professional responsibilities, encounter conflicting pressures from audited entity, various levels of government, likely users. Auditors may also encounter pressures to violate ethical principles to achieve personal or organizational gain. In resolving those conflicts and pressures, acting with integrity means that auditors place priority on their responsibilities to the public interest.

#### **Objectivity**

The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when conducting an audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility.

Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public. The concepts of objectivity and independence are closely related. Independence impairments impact objectivity.

### **Proper Use of Government Information, Resources, and Position**

Government information, resources, to be used for official purposes and not inappropriately for the auditor's personal manner contrary to law or detrimental to interests of the audited entity or the audit concept includes the proper handling of classified information or resources.

In the government environment, the public's right to the transparency of government information has to be balanced with the proper use of that information. In addition, many government programs are subject to laws and regulations dealing with the disclosure of information. To accomplish this balance, exercising discretion in the use of information acquired in the course of auditors' duties is an important part in achieving this goal. Improperly disclosing any such information to third parties is not an acceptable practice.

As accountable professionals, accountability to the public for the proper use and prudent management of government resources is an essential part of auditors' responsibilities. Protecting and conserving government resources and using them appropriately for authorized activities are important elements of the public's expectations for auditors.

Misusing the position of an auditor for financial gain or other benefits violates an auditor's fundamental responsibilities. An auditor's credibility can be damaged by actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an auditor's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the auditor serves as an officer, director, trustee, or employee; or an organization with which the auditor is negotiating concerning future employment.

### **Professional Behavior**

High expectations for the auditing profession include compliance with laws and regulations and avoidance of any conduct that might bring discredit to auditors' work, including actions that would cause an objective third party with knowledge of the relevant information to conclude that the auditors' work was professionally deficient. Professional behavior includes auditors putting forth an honest effort in performance of their duties and professional services in accordance with the relevant technical and

I \_\_\_\_\_, auditor for the City of San Diego, have reviewed the stated ethical principles and pledge to adhere to the principles to the best of my ability. In the event, I cannot comply with or adhere to the identified principles I will immediately notify my appointing authority of the circumstances involving the ethical principles.

Auditor's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

City Auditor's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Policy on Gifts and Form 700 Reporting**  
**Office of the City Auditor's**  
**City of San Diego**

Government Auditing Standards provides examples of circumstances that create a threat of bias for an auditor that could impair independence. One example is an auditor accepting gifts or preferential treatment from an audited entity, unless the value is trivial or inconsequential.<sup>2</sup> Therefore, City Auditor staff may not accept any gifts or preferential treatment from an auditee unless the value is trivial or inconsequential.

Examples of gifts with a trivial or inconsequential value are accepting a bottle of water, a cup of coffee made at the office, or a can of soda while working with an auditee. Examples of gifts exceeding a trivial or inconsequential value are allowing an auditee to purchase your lunch, or purchase a coffee for you at a coffee shop. If you are uncertain if a gift offered to you is trivial or inconsequential in value, you should not accept it. While each employee is the first to decide whether to accept any gift or favor, he/she must recognize that *others* will decide if there is an appearance of influencing an employee's, or the City's, actions. If you are uncertain, you can seek advice from the City Auditor prior to accepting a gift.

The [City of San Diego Employee Code of Conduct Handbook](#) also has restrictions on accepting gifts that must be followed by City Auditor staff:

"I.I Gifts/Favors

Employees shall not accept money or other consideration or favors from anyone other than the City for the performance of an act which they would be required or expected to perform in the regular course of their duties.

An employee is prohibited from accepting any gift from persons doing business with, or seeking to do business with, the City when accepting the gift might reasonably be interpreted as an attempt to influence his/her actions with respect to City business. [[Council Policy 000-04; A.R. 95.60, sec. 3.4](#)]

Comment: Compensation for performing public duties is limited to an employee's salary, benefits and any personal satisfaction he/she may receive in the performance of his/her job. While each employee is the first to decide whether to accept any gift or favor, he/she must recognize that *others* will decide if there is an appearance of influencing an employee's, or the City's, actions.

Gifts may include anything of economic value, whether in the form of money, service, loan, travel, entertainment, hospitality, item or promise. Employees are permitted to accept plaques, souvenirs or mementos of nominal value associated with a given event."

In addition, City Auditor staff must be familiar with and follow the restrictions and reporting requirements for gifts established by the State of California Fair Political Practices Commission (FPPC). The FPPC's guide

<sup>2</sup> Government Auditing Standards, 3.41(d).



regarding Limitations and Restrictions on Gifts, Honoraria, Travel and Loans guide can be found at <http://www.fppc.ca.gov/content/dam/fppc/NS-Documents/TAD/Public%20Officials%20and%20Employees/StateGiftFactSheet.pdf>.

The rules and requirements for the FPPC Form 700 – Statement of Economic Interest must be reviewed and filed by all City Auditor staff when they initially accept a position with the Office of the City Auditor and then annually each calendar year thereafter. The Form 700 can also be found at: <http://www.fppc.ca.gov/Form700.html>.

Each City Auditor staff member should file the Form 700 through the City Clerk's electronic filing system, and instructions can be found at: <http://citynet.sannet.gov/cityclerk/pdf/howsei.pdf>.

## Section 2

### **Adherence to *Government Auditing Standards***

It is the policy of the Office of the City Auditor to follow generally accepted government auditing standards (GAGAS), as provided in *Government Auditing Standards*, July 2018 Revision, issued by the U.S. Government Accountability Office—more commonly referred to as the **Yellow Book**.<sup>1</sup>

This section documents guidance for performing financial audits, attestation engagements, and performance audits. Specifically, the guidance covers adherence to the following foundational *Yellow Book* standards:

- Independence
- Professional Judgment
- Competence
- Quality Control and Assurance

These *Yellow Book* chapters encompass the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff, including the need for continuing professional education; and the existence of quality control systems and external peer reviews. Section 2 also documents the Office of the City Auditor policies and procedures for complying with these Yellow Book provisions. The fieldwork and reporting standards and applicable policies are covered in Section 3 and Section 6.

<sup>1</sup> The 2018 revision of *Government Auditing Standards* supersedes the 2011 revision. The 2018 revision of *Government Auditing Standards* is the version that should be used by government auditors until further updates and revisions are made. The 2018 revision is effective for financial audits and attestation engagements for periods ending on or after June 20, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not allowed.

<b>Government Auditing Standards--Performance Audits</b>		
<b>Foundational Standards</b>	<b>Fieldwork Standards</b>	<b>Reporting Standards</b>
<b>Audit Manual Section 2</b>	<b>Audit Manual Section 3</b>	<b>Audit Manual Section 6</b>
Independence	Reasonable Assurance	Form
Professional Judgment	Significance	Report Contents
Competence	Audit Risk	Report Quality Elements
Quality Control and Assurance	Planning	Report Issuance and Distribution

## **Independence**

In all matters relating to GAGAS engagements, the Office of the City Auditor and individual auditors must be independent<sup>2</sup>. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work.<sup>3</sup> In accordance with San Diego City Charter Section 39.2, the Office and each auditor follow Generally Accepted Government Auditing Standards, currently, the 2018 version (GAGAS or GAS).

## **Practical Consideration of Independence**

Four interrelated sections define GAGAS's practical considerations.<sup>4</sup> These include

- 1) Use of a conceptual framework for making independence determinations;
- 2) General requirements and application guidance;
- 3) Requirements and guidance for nonaudit services; and
- 4) Documentation requirements to support adequate consideration of auditor independence.

### **Use of a Conceptual Framework for Making Independence Determinations**

GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. Auditors should apply the conceptual framework at the audit organization, engagement team, and individual auditor levels to 1) identify threats to independence; 2) evaluate the significant of the threats; and 3) apply safeguards as necessary.<sup>5</sup> Auditors should conclude that

<sup>2</sup> GAS 3.18

<sup>3</sup> GAS 3.04

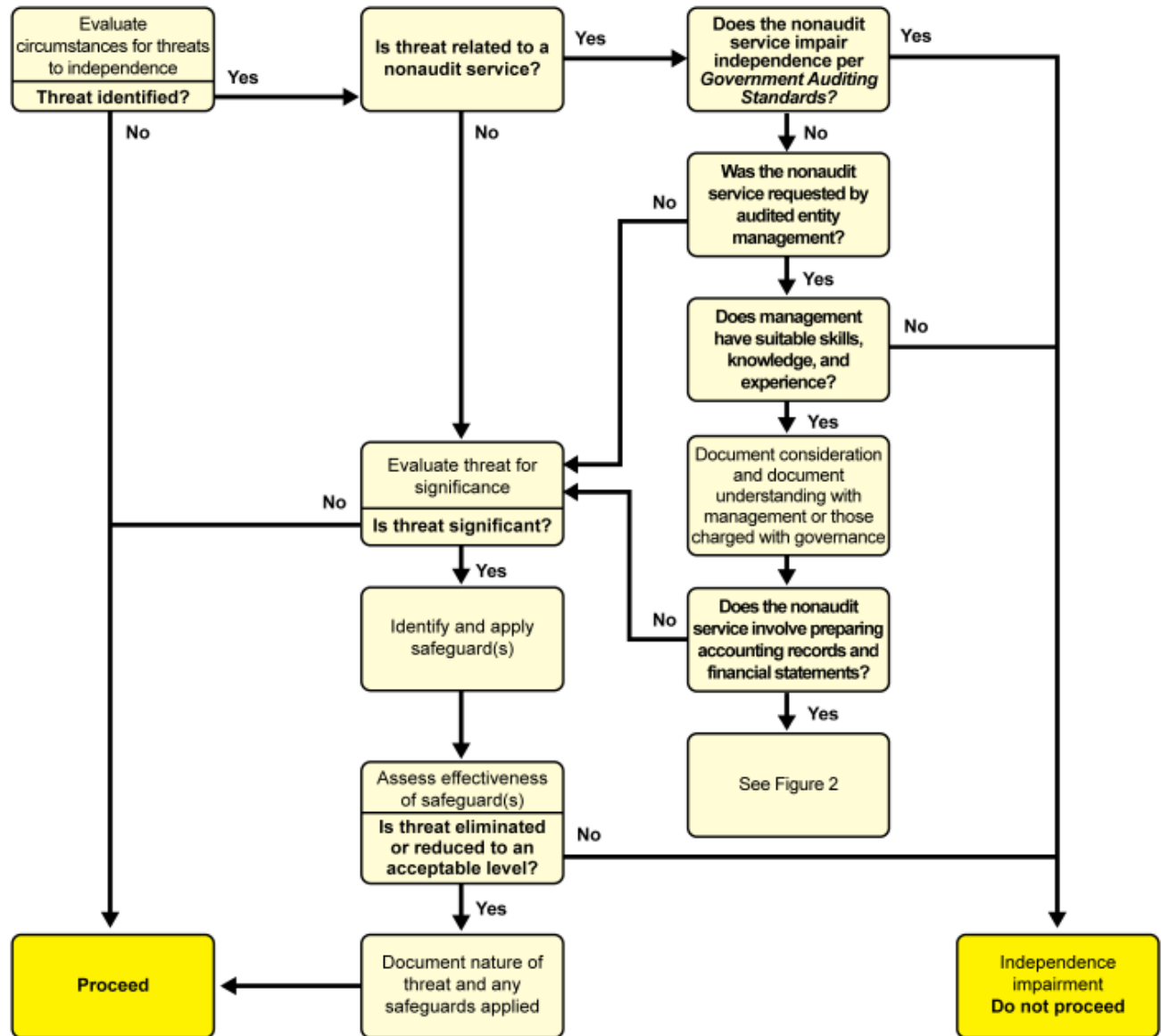
<sup>4</sup> GAS 3.17

<sup>5</sup> GAS 3.27

independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.<sup>6</sup> Figure 1 demonstrates the application for applying the conceptual framework.

<sup>6</sup> GAS 3.59

Figure 1: Generally Accepted Government Auditing Standards Conceptual Framework for Independence



Source: GAO. | GAO-18-568G

### Applying the Conceptual Framework

Auditors should evaluate threats to independence using the conceptual framework when the facts and circumstances under which the auditors perform their work may create or augment threats to independence. Auditors should evaluate threats both individually and in the aggregate, as threats can have a cumulative effect on auditors' independence<sup>7</sup>.

<sup>7</sup> GAS 3.45

The evaluation for threats to independence should not only occur when a workplan is established, but rather, the evaluation should be an ongoing consideration during audits. An event can occur at any time which may impair independence. Auditors should use professional judgment when applying the conceptual framework<sup>8</sup>. Auditors should reevaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level<sup>9</sup>.

Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level, considering both qualitative and quantitative factors to determine the significance of a threat<sup>10</sup>. When auditors determine that threats to independence are not at an acceptable level, the auditors should determine whether appropriate safeguards can be applied to eliminate the threats or reduce them to an acceptable level<sup>11</sup>.

In cases where threats are not at an acceptable level, the auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level<sup>12</sup>. If auditors identify a threat to independence after the audit report issued, auditors should evaluate the threat's effect on the engagement and determine if the issued audit report results would have been different. If changes are necessary, the changes should be communicated in the same manner as originally distributed to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the audit organization requiring or arranging for the engagements and other known users, so they do not continue to rely on findings or conclusions that are affected by the threat to independence. Any posted reports should be removed and a public notification posted. The auditors should then determine whether to perform the additional engagement work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the additional engagement work does not result in a change in findings or conclusions<sup>13</sup>.

Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level. When auditors conclude that independence of the engagement team or the audit organization is impaired under paragraph 3.59, auditors should decline to accept an engagement or should terminate an engagement in progress<sup>14</sup>.

<sup>8</sup> GAS 3.29

<sup>9</sup> GAS 3.28

<sup>10</sup> GAS 3.31

<sup>11</sup> GAS 3.32

<sup>12</sup> GAS 3.33

<sup>13</sup> GAS 3.34

<sup>14</sup> GAS 3.59, 3.60

### *Threats to Independence*

Threats to independence may be created by a wide range of relationships and circumstances. Auditors should evaluate the following broad categories of threats<sup>15</sup>.

- **Self-interest threat** – a financial or other interest will inappropriately influence an auditor's judgment or behavior;
- **Self-review threat** – an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services provided as part of the nonaudit services when forming a judgment significant to a GAGAS engagement;
- **Bias threat** – an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;
- **Familiarity threat** – aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective;
- **Undue influence threat** – influences or pressures from sources external to the audit organization will affect an auditor's ability to make objective judgments;
- **Management participation threat** – an auditor's taking on the role of management or otherwise performing management functions on behalf of the audited entity, which will lead an auditor to take a position that is not objective; and
- **Structural threat** – an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will affect the audit organization's ability to perform work and report results objectively.

### *Safeguards to Independence*

Safeguards are actions or other measures, individually or in combination, that auditors and audit organizations take that effectively eliminate threats to independence or reduce them to an acceptable level. Safeguards vary depending on the facts and circumstances<sup>16</sup>. In some cases, multiple safeguards may be necessary to address a threat<sup>17</sup>.

Examples of safeguards include, but are not limited to<sup>18</sup>:

- Consulting an independent third party,
- Having staff not associated with the audit review the work performed, or
- Discussing independence issues with those charged with governance.

<sup>15</sup> GAS 3.30

<sup>16</sup> GAS 3.49

<sup>17</sup> GAS 3.51

<sup>18</sup> GAS 3.50

### **Specific requirements for audit organizations located within entities they audit**

The ability of an audit organization structurally located in a government entity to perform work and report the results objectively can be affected by its placement within the government entity and the structure of the government entity being audited. Audit organizations structurally located within government entities are often subject to constitutional or statutory safeguards that mitigate the effects of structural threats to independence<sup>19</sup>. The Office of the City Auditor reports to the City Council through their Audit Committee, the legislative branch, while the audited entities of the City report to the Mayor, the Chief Executive. As a result, the Office is structurally separated from the level of government audited by the Office of the City Auditor<sup>20</sup>. The City Auditor is appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body<sup>21</sup>.

The Office of the City Auditor was created by a 2008 City Charter amendment (Section 39.2), which granted broad authority and autonomy. There are a number of key safeguards in place to strengthen the Office's independence. These include the following:

- A City Charter amendment passed by the voters in 2008 created the Office of the City Auditor and only a City Charter change can abolish the Office (GAS 3.55a);
- In May 2020, voters passed a further revision to the Charter to, among other things, remove the Mayor from the City Auditor selection process, with the intent of strengthening the independence of the City Auditor. Pursuant to this voter-approved amendment, the City Auditor is appointed by the City Council from a pool of no fewer than three candidates recommended by the Audit Committee (GAS 3.55b). The City Auditor appointment is one 5-year term, and may be reappointed for an additional 5 years by City Council, for a maximum total term of 10 years
- The City Charter grants the City Auditor with broad access to records and City staff, and with an additional San Diego Municipal Code Improper Influence Ordinance, criminalizes an intentional attempt to obstruct or influence an audit or resulting report (GAS 3.55c/3.55d/3.55g);
- The Office of the City Auditor is required to report to the city's Audit Committee, a committee made of two City Council members and three public members appointed by the City Council (GAS 3.55e); and
- The City Charter designates the City Auditor as the appointing authority over Office staff. As such, the City Auditor has control over selection, retention, advancement, and dismissal of staff (GAS 3.55f).

### **Requirements and guidance for nonaudit services**

Nonaudit services are defined as professional services other than audits or attestation engagements. Compliance with GAGAS does not apply to nonaudit services, so auditors do not report that nonaudit

<sup>19</sup> GAS 3.52

<sup>20</sup> GAS 3.53b

<sup>21</sup> GAS 3.54b



services were conducted in accordance with GAGAS. When performing nonaudit services, auditors should clearly communicate to audit requestors and those charged with governance that the work performed does not constitute an audit conducted in accordance to GAGAS<sup>22</sup>.

In considering nonaudit services, the Office of the City Auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct.<sup>23</sup>

The Office of the City Auditor will consider the impact of nonaudit services on a case-by-case basis to assess the impact on audit independence. However, each auditor should ensure they consider the workplan and any contemplated nonaudit services when utilizing the conceptual framework. In connection with nonaudit services, the Office of the City Auditor will establish and document their understanding with the audited entity's management or those charged with governance, as appropriate, regarding the following:

- Objective of the nonaudit service;
- Services to be performed;
- Audited entity's acceptance of its responsibilities;
- The auditor's responsibilities; and
- Any limitations of the nonaudit service<sup>24</sup>.

#### **Documentation requirements to support adequate consideration of auditor independence**

Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. Appropriate documentation is required under the GAGAS quality control and assurance requirements. The independence standard includes the following documentation requirements:

- Document threats to independence that require the application of safeguards in accordance to the conceptual framework. This is addressed by completing the Threat Consideration and Safeguard Consideration portion of the Auditor Independence Evaluation Form.
- Document safeguards when the audit organization is located within a government entity and is considered independent. We are considered independent as our Office reports to the legislative branch, City Council, and not the Mayor and operational executive branch (GAS 3.53b). Additionally, the City Auditor is appointed by the legislative body, subject to removal by a legislative body, and reports the result of audits to and is accountable to a legislative body (GAS 3.54b). Further, the City Charter grants broad authority to the Office of the City Auditor and statutory protections address the seven safeguards listed under GAS 3.55.
- Nonaudit Service – Document consideration of audited entity management's ability to effectively oversee a nonaudit service to be provided by the auditor.

<sup>22</sup> GAS 3.54b

<sup>23</sup> GAS 3.73

<sup>24</sup> GAS 3.77

- Nonaudit Service – Document the auditor’s understanding with an audited entity for which the auditor will provide a nonaudit service<sup>25</sup>.

### **Office of the City Auditor Policy**

To ensure compliance with the Independence Standard regarding personal and external impairments, all City Auditor staff that conduct audits will be required to sign an annual independence statement as outlined in Administrative Policy 1.3 and 1.3.1. An auditor will not be assigned to an audit with an existing impairment unless the assignment is unavoidable and safeguards are applied and assessed to eliminate the threat to independence, or reduce it to an acceptable level. If conditions lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence, the City Auditor will decline to perform the prospective audit or terminate an audit in progress.

Should an actual or perceived personal or external impairment arise during the course of an assignment or after an audit report is issued, the auditor is responsible for advising the City Auditor immediately. If a threat to independence is initially identified after the auditors’ report is issued, the City Auditor will evaluate the threat’s impact on the audit and on GAGAS compliance. If the City Auditor determines that the newly identified threat had an impact on the audit that would have resulted in the auditors’ report being different from the report issued had the auditors been aware of it, the steps outlined in GAGAS Section 3.34 will be implemented. The City Auditor will take the appropriate disciplinary action for audit staff that fail to report any impairments identified.

External impairments that cannot be resolved by the City Auditor will be reported to the Audit Committee for action. Impairments reported to the Audit Committee that are not resolved will be reported to the City Council for action.

<sup>25</sup> GAS 3.107d

### **Office of the City Auditor Policy Regarding Nonaudit Services**

Although the Office of the City Auditor generally does not perform nonaudit services, in consultation with the Audit Committee, the City Auditor will consider performing requested non-audit service in the context of impact on the current audit workplan and to independence. Before the City Auditor will agree to provide a nonaudit service, it will be determined whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit the Office of the City Auditor performs. The annual independence statement will be completed as outlined in Administrative Policy 1.3.1 for each nonaudit service considered, and compliance with GAGAS Sections 3.64 through 3.69 will be documented related to any nonaudit services the City Auditor agrees to perform. The City Auditor will decline requests to perform nonaudit services that impair the audit organization's independence. If an auditor was required to perform a nonaudit service that could impair his or her independence with respect to a required audit, the nature of the threat that could not be eliminated or reduced to an acceptable level will be included in the report's GAGAS statement.

### **Professional Judgment**

This standard requires that auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results. Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care concerns acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Professional skepticism includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty. Believing that management is honest is not a reason to accept less than sufficient, appropriate evidence.

### **Office of the City Auditor Policy On Professional Judgment**

The Audit Manual includes procedures for conducting audit planning, risk assessment, and audit fieldwork, as well as procedures for preparing workpapers and report writing. Evidence that the professional judgment standard was met should include completed and approved audit programs for audit planning, field work, and report writing. If any of the audit phases are not performed, a written justification for not doing so should be included in the workpapers. Also, included should be a signed ethical principle statement form documenting awareness of required behavior.

For each audit done in accordance with GAGAS, auditors should complete an Audit Standards Plan. The Audit Standards Plan includes procedures to ensure that internal procedures and GAGAS are followed.

## Competence

The standards require that staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments. Audit management will assign staff to audits (financial, attestation, and performance), based on staff technical knowledge, skills, and experience. See Section 5 for process for evaluating staff competence.

### Office of the City Auditor Policy Regarding Auditor Competence

In the Office of the City Auditor, auditor competence is defined by minimum high-level staff qualifications and requirement to achieve 80 hours of training every two years. Job classifications contain minimum requirements for education, coursework, work experience, knowledge, and skills necessary to conduct audits. Auditors perform challenging and innovative work to improve the economy, efficiency, and effectiveness of City government services and programs. This position requires the ability to collect, compile, analyze, interpret and present data, and draft audit findings. In the City of San Diego, Auditor's:

- Analyze City programs, departments, budgets, and complex processes to identify areas of efficiency and effectiveness.
- Identify areas of risk and evaluate internal controls over financial reporting.
- Develop and execute audit programs to identify and document areas for improvement.
- Assist in audit planning, conduct field work, and document audit steps and working papers.
- Use specialized data analysis techniques and approaches to analyze agency performance.
- Apply knowledge of budgeting, public administration, and generally accepted governmental auditing standards.
- Develop and communicate audit findings to staff, including identifying recommendations to address audit issues.
- Negotiate and assist in the resolution of audit issues.
- Write reports to the San Diego City Council identifying audit findings and recommendations.
- Maintain a professional rapport with management and work to ensure recommendations are implemented.

Minimum qualifications include completion of an undergraduate degree in information technology, accounting, business or public administration or related field from an accredited college or university, and two years of professional performance auditing, analytical or policy work experience is preferred. An advanced degree or professional certification is highly desirable. Proficiency in MS Word, Excel, PowerPoint, and Access is required. Advanced data analysis skills are also highly desirable.

Auditors performing work under GAGAS, including planning, directing, performing field work, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work under GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. For auditors who are involved in any amount of planning, directing, or reporting on GAGAS assignments and those auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS assignments should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2- year period) that enhances the auditor's professional proficiency to perform audits or attestation engagements. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year period.

In the event the Office of the City Auditor utilizes the services of external specialists to assist in performing GAGAS assignments, the City Auditor or his designee will assess the professional qualifications of such specialists including GAGAS CPE requirements, and document their findings and conclusions.

### **Office of the City Auditor Training Policy and Guidelines**

All auditors are required to comply with GAGAS continuing professional education requirements. The current two-year training cycle began on July 1, 2019. See the Office of the City Auditor Training Policy below.

### **Quality Control and Assurance**

Each audit organization performing audits or attestation engagements in accordance with GAGAS must:

- establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and
- have an external peer review at least once every three years.

The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

## **Office of the City Auditor Policy on Quality Control**

The key components of the internal quality control program are: (1) Supervisory review of all audits and working papers; (2) City Auditor and Assistant City Auditor review of completed audits; (3) Independent Report Review of final draft report; (4) monitoring of quality procedures, (5) Audit Standards Plan form completed for each audit engagement to document compliance with GAGAS; and (6) a peer review conducted every three years. The signature page of the Audit Standards Plan documents the review and approval at each quality control checkpoint.

On annual basis, audit management will review its monitoring of quality procedures and analyze and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. The results of this review should be documented in the Annual Results of Monitoring Procedures Review Form.

## **Peer Review Program**

The Office of the City Auditor was created in June 2008 and the City Auditor's first peer review was conducted by the Association of Local Government Auditors (ALGA) in 2010. It covered audits completed between July 2008 and June 2010. Subsequent peer review covered audits issued between July 2010 and June 2013; July 2013 and June 2016; and July 2016 and June 2019. Peer Review teams found no deficiencies in any review period. Reviews will continue be conducted every three years.

The Office of the City Auditor has transmitted its last external peer review reports to the Audit Committee and City Council. The peer review report and letter of comment has been posted on the City Auditor's website and a copy of the reports will be made available to the public upon request.

## **Office of the City Auditor Policy on Peer Review**

The policy is to comply with the GAGAS external peer review requirement by having an external peer review at least every three years. The peer review could be done through a professional association, such as the Association of Local Government Auditors, or through an outside auditing firm. The results of the peer review will be presented to the Audit Committee and the report posted on the City Auditor's Website:

<http://www.sandiego.gov/auditor/reports/index.shtml>

## **OFFICE OF THE CITY AUDITOR TRAINING POLICY AND GUIDELINES**

### **Purpose**

- Ensure that all Office of the City Auditor employees receive the necessary training to optimize job performance.
- Establish quality control procedures to ensure compliance with the Continuing Professional Education (CPE) requirements mandated by the U.S. Government Accountability Office (GAO) Government Auditing Standards.
- Establish educational training requirements with learning objectives designed to maintain or enhance employees' competency, knowledge, skills, and abilities in areas applicable to performing audits, attestation engagements, and other technical job-related activities for the Office of the City Auditor.
- Support staff in their career development.

### **Policy**

The 2018 GAO Government Auditing Standards requires auditors performing governmental audits to complete at least 80 hours of CPE each 2 year period to enhance professional competence and proficiency. The Government Auditing Standards also requires at least 20 of the 80 hours of CPE to be earned in one of the 2 years, and that 24 hours be directly related to government auditing, the government environment or the specific or unique environment in which the audited entity operates. The City Auditor has adopted the policy that all staff auditors will meet this CPE requirement. The City will provide the required CPE by sending auditors to training sponsored by appropriate professional organizations, providing the CPE training in-house, and using other methods as appropriate.

### **Scope**

- This training program applies to all employees of the City Auditor that engage in performing audits.
- The primary focus for this training program is to develop and enhance the participants' knowledge, skills, and abilities in areas applicable to performing audits or attestation engagements; however, training may be provided in various other areas such as ethics, and personal development that increases competence.

## **Goals and Procedures**

CPE topics may include but are not limited to audit methodology, accounting, assessment of internal controls, risk assessment, detection of fraud, investigative auditing, performance auditing, operational auditing, financial auditing and disclosure, statistical sampling, evaluation design, data analysis, public administration, City policy and structure, economics, social sciences, personal development, computer applications, and principles of management and supervision. The following should also be considered when deciding whether a program qualifies for CPE credits.

- The training should contribute to the auditors' proficiency to perform or supervise an audit or increase competence.
- The training program should establish the education and experience level needed for participation.
- The training program objectives should specify the level of expected knowledge or competence upon completion of the program.
- The information presented should be current and substantive.
- The program should be designed and developed by those knowledgeable in the subject matter and instruction/education design.
- Instructors should be knowledgeable with program content and teaching methods.
- When appropriate, evaluation or assessment activities should be part of the program.

The following are different categories of programs available for CPE credits. Generally, 50 minutes of training = **1 Hour of CPE credit**.

- Internal training programs that meet the qualifications for CPE.
- Meetings or seminars of professional organizations that meet the qualifications for CPE.
- College courses that enhance professional competence and proficiency – 1 semester unit = 15 CPE credits, 1 quarter unit = 10 Hours of CPE credits.
- External education and training programs sponsored by professional organizations that qualify for CPE. Professional organizations include but are not limited to the Institute of Internal Auditors, Association of Local Government Auditors, American Institute of Certified Public Accountants, Association of Certified Fraud Examiners, Information Systems Audit and Control Association, and the Government Accounting Standards Board.
- Speaking engagements and formal instruction that qualify for CPE. 1 presentation hour (50 minutes) = 3 Hours of CPE credits (1 credit for presentation and 2 credits for preparation) **Limit 40 CPE each 2 year period, limited to 1 time every 2 years for repeated programs.**



- Individual study programs such as correspondence courses, self-study guides, video tapes, audio cassette, and computer courses that meet the qualifications for CPE.

Maintaining and continuously improving professional competence is primarily the responsibility of each individual auditor. Each auditor should seek opportunities for training and professional development, participate in training provided by the City, and maintain the training documentation required under this policy.

- A Training Logbook (Excel Workbook) will be kept on a shared hard drive to track compliance with the Government Auditing Standards CPE requirements. The Training Logbook is located at "J:\CPE\Training Logbook and Policy". A new Logbook will be created after each 2 year period, and each auditor will have a separate tab on the Logbook to enter training information. In addition, a shared Training Binder will be maintained by City Auditor management to keep documentation verifying the successful completion of CPE (e.g. Certificates of Completion, Reports of Grades, etc). Each auditor will have a tab in the Training Binder. The Office shall maintain individual employee files for auditors which include resumes and evidence of training records.
- After completing CPE provided by the City, each auditor will provide evidence of training and certificates to verify successful completion.

It is the responsibility of City Auditor management to maintain quality control procedures to ensure auditors are in compliance with the CPE and staff competence requirements mandated by Government Auditing Standards.

- Periodically, City Auditor management will review the CPE recorded in the Training Logbook and the corresponding documentation kept in the Training Binder to verify the successful completion of CPE, and to ensure each auditor will receive training to be in compliance the Government Auditing Standards CPE requirements.
- City Auditor management will continually assess the skill level needed to fulfill the scope of audit projects and provide audit staff with the training necessary to meet those needs.
- Staff will be encouraged and supported to successfully complete the requirements to obtain professional certification designations such as Certified Internal Auditor, Certified Public Accountant, Certified Fraud Examiner, and/or other professional certification designations.

**CITY OF SAN DIEGO  
OFFICE OF THE CITY AUDITOR  
SUPERVISORY REVIEW**

**Purpose**

To ensure that all audit reports are supported by evidence documented in the audit workpapers; opinions and conclusions are logical and consistent; and all applicable GAGAS standards were met.

**Background**

The Audit Manager (Assistant City Auditor, Deputy City Auditor, Principal IT Auditor, or Principal Auditor) review ensures that the quality control reviews are performed on time and adequately documented. Supervisory review usually consists of continuous review of audit work and working papers

**Procedure**

Supervisory review includes:

- (a) attendance at team meetings to monitor audit progress;
- (b) participation at the preliminary survey meeting to discuss potential risk exposures of organizational unit under review and define areas that warrant audit attention;
- (c) participation at fieldwork meetings to review audit results and finalize draft outline;
- (d) review of key working papers; and
- (e) review of draft reports.

The Supervising Auditor Review includes the review of workpapers to ensure that the audit workpapers comply with the workpaper organization and control guidelines described in the Audit Manual and Government Auditing Standards. Subject to the approval of the City Auditor, the Supervising Auditor may delegate the review of workpapers to another member of the audit staff provided that person is sufficiently experienced and competent to perform the task(s).

The In-Charge/Supervising Auditor is responsible for ensuring that the audit is performed in accordance with Government Auditing Standards and the City Auditor Policies and Procedures Manual. The In-Charge Review includes assessing the requirements of the audit assignment.

**CITY OF SAN DIEGO  
OFFICE OF THE CITY AUDITOR  
CITY AUDITOR REVIEW AND APPROVAL**

**Purpose**

To document the City Auditor's ultimate responsibility for all audit work and audit products issued by the office.

**Background**

The City Auditor's goal is to ensure that all audit products and audit work performed by Audit staff are accurate, timely, and complete and done in accordance to GAGAS. The City Auditor's signature on audit reports and memorandums attests that he has reviewed and approves of the audit findings, conclusions, and recommendations.

**Procedure**

The City Auditor's review and approval includes:

- (a) approval of audit scoping statement, completed risk assessment, and field work audit program;
- (b) review and approval of draft audit reports and memorandums;
- (c) participating in periodic team meetings to monitor audit progress;
- (d) participating at an end of preliminary survey meetings to discuss the audit scope statement and finalized risk assessment and audit program; and
- (e) participating at an end of field work meeting to review audit results and discuss draft outline.

**CITY OF SAN DIEGO  
OFFICE OF THE CITY AUDITOR  
INDEPENDENT REPORT REVIEW**

**Purpose**

Government Auditing Standards require that each audit organization conducting audits in accordance with GAGAS should have an appropriate internal quality control system in place. A foundational element of an internal quality control process is an overall assessment of the sufficiency and appropriateness of evidence used to support information, conclusions, and recommendations in an audit product. To comply with sections 8.108 through 8.115 pertaining to the overall assessment of evidence, as well as other applicable standards of the Yellow Book, the Independent Report Review process is established to ascertain that every statement of fact in the audit report is supported by audit evidence documented in the audit workpapers and that opinions, conclusions, and recommendations are accurate, logical, and consistent.

**Background**

The Independent Report Review or referencing is a critical quality control element in audit report processing. Referencing is the process followed to ascertain that **every** statement of fact in the audit report is supported by sufficient, competent, and relevant audit evidence. The reviewer's job is to examine the report's facts, opinions, and conclusions to ensure they are accurate, logical, and consistent. The reviewer is expected to verify every statement of fact by tracing it back to the supporting workpapers. The workpapers should reflect the details of the evidence and disclose how it was obtained. When referencing reports, Independent Report Reviewers perform this function on behalf of the City Auditor.

**Procedure**

<b>Audit Staff</b>	<ol style="list-style-type: none"><li>1. References report draft to audit workpapers by providing authoritative support for findings and recommendations contained within the report. Audit Staff should:<ul style="list-style-type: none"><li>• Ensure that workpapers have the required sign-offs.</li><li>• Ensure that a second reviewer (ie., someone other than the person who prepared/analyzed the data) has traced and verified all data tables in workpapers. The second reviewer should electronically initial the following statement on the workpaper title sheet: "I traced the source and verified the accuracy of the data in this workpaper [initial and date]."</li></ul></li></ol>
--------------------	---

	<ul style="list-style-type: none"> <li>• For each statement of fact, highlight the draft report text using the “New Comment” function within Microsoft Word, electronically reference the audit report draft to the audit workpapers by hyperlinking the workpaper index number, page number, and reference number in the comment box. For example, B-2.1 pg. 4R1. See Example 1 below, for an example of referencing using Microsoft Word comment boxes.</li> <li>• The workpaper reference number(s) (ie, R1, R2, etc) should be adjacent to the evidence cited.</li> <li>• For statements of opinion or conclusion, note “ACBOA” (Auditor Conclusion Based on Above) or “ACBOB” (Auditor Conclusion Based on Below) within the comment box. Alternatively, Auditor Opinion Based on Above/Below may be used.</li> <li>• Corroborate or attribute to the source testimonial evidence used. For example, “According to department staff...”</li> <li>• Reference <u>all</u> figures or information included in charts and graphs. See Examples 2 and 3 below for examples of how to reference charts and graphs. A single reference can be used if the table or graph appears in a workpaper and has been traced and verified by a second reviewer.</li> <li>• Ensure that all charts and graphs used in the actual report have a source identified. For example, “OCA-generated based on information provided by PUD.” See Examples 2 and 3 below for examples of how to reference charts and graphs.</li> <li>• Ensure that all comparative numbers used for benchmarking type analysis are provided/referenced in a manner easy for the reviewer to evaluate. For instance, if benchmarking other municipality response times, these times should be presented to the reviewer in one auditor generated analysis that is sourced, rather than sending the reviewer to multiple different documents.</li> </ul>
<b>City Auditor</b>	2. Assigns auditors who were not involved in the audit project’s fieldwork and report preparation to be the Independent Report

	<p>Reviewer(s). Reviewer assignments and expectations are as follows:</p> <p>The City Auditor will determine which sections of the report draft, if any, should be approved by the Independent Reviewer prior to department review. Senior Performance Auditors and above will be assigned to review sections of the report considered high risk as determined by the City Auditor in consultation with the Principal Auditor. High risk sections include those which should be prioritized and approved prior to department review and those sections with figures that should be recalculated.</p> <ul style="list-style-type: none"> <li>• Performance Auditors I and II may be assigned to review sections of the report considered low risk as determined by the City Auditor or Assistant City Auditor in consultation with the Principal Auditor.</li> <li>• The City Auditor makes the final decision when disagreements arise regarding report evidence.</li> </ul>
<b>Independent Report Reviewer</b>	<ul style="list-style-type: none"> <li>• Examine the logic, facts, and conclusions presented in the report. In particular, the following tasks should be completed to ensure the accuracy of the report:</li> <li>• Verify that facts flow logically into conclusions and recommendations.</li> <li>• Trace every statement of fact to the supporting workpaper, including dates, numbers, percentages, titles, proper names, quotes, and legal citations.</li> <li>• Ensure that a second reviewer has traced and verified all figures presented in the report that are calculated through OCA analysis of data, and verify that the second reviewer has initialed the attestation statement on the title sheet of the workpaper containing the data analysis.</li> <li>• As directed by the City Auditor, evaluate the methodology used to calculate critical figures presented in the report, and verify the accuracy of underlying calculations.</li> <li>• If the statement of fact, opinion, or conclusion is acceptable, record your initials, "OK", and date inside</li> </ul>

	<p>the comment box directly below the references provided as shown in Example 1.</p> <ul style="list-style-type: none"> <li>• If the statement of fact, opinion, or conclusion is not supported by the references provided, or if clarification is required, request additional information inside the comment box directly below the references provided. Highlight the request for information in yellow so that it can be easily located by Audit Staff. See Example 1, below, for an example of how to request additional information.</li> <li>• If consistently deficient references impair the ability to efficiently conduct the Independent Review, notify the Audit Manager and return the draft to Audit Staff so that these deficiencies can be addressed prior to continuing the Independent Review.</li> <li>• If necessary, inform the Audit Staff of any edits that should be an area of focus for the Audit Administrative Support Analyst when preparing the report for publishing. For example, "Please reconcile the usage of SD-OHS vs. Homeland Security."</li> </ul>
<b>Audit Staff</b>	<p>3. Respond in writing to the Independent Report Reviewer's comments and questions. Responses should be entered underneath the reviewer's comments in the comment box. See Example 1 for an example of how to respond to the Independent Reviewer's notes.</p> <ul style="list-style-type: none"> <li>• Make changes to the workpapers as necessary.</li> <li>• Make any changes to the report as necessary. Use track changes to track any edits made to the report, to assist with version control efforts.</li> <li>• Refer any audit report changes and unresolved items to the Audit Manager and the City Auditor.</li> </ul>
<b>Independent Report Reviewer</b>	<p>4. Review the audit staff's responses to any outstanding independent review comments and requests for information. Record your initials, "OK", and date in the comment box below all comments or questions that are resolved.</p> <p>5. If differences of opinion cannot be resolved, document the rationale in the comment boxes and highlight each box in red,</p>

	<p>and discuss the unresolved issues with the City Auditor for resolution.</p> <ul style="list-style-type: none"> <li>• See Example 1 below, for an example of Independent Review comments.</li> </ul>
<b>Audit Staff</b>	<ol style="list-style-type: none"> <li>6. Address all independent reviewer comments.</li> <li>7. Make appropriate changes to workpapers, conclusions, and the report. Reconcile changes to the report made as a result of independent review. This includes ensuring that any changes made to the report after the Independent Review has been completed (such as changes made as a result of the exit conference) are cleared through the Independent Review process. An exception to this requirement is minor verbiage revisions (such as using 'did not complete' instead of 'failed to complete') which are immaterial to the report contents. The Audit Manager will determine if verbiage revisions are immaterial or need to be cleared by the Independent Reviewer.</li> <li>8. Sign the Audit Standards Plan Review Form before the audit report is issued.</li> </ol>
<b>Principal Auditor</b>	<ol style="list-style-type: none"> <li>9. Verify that Audit Staff and the Independent Reviewer(s) have appropriately referenced and reviewed all changes made to the report as the result of the exit conference, Independent Review, etc. When there are verbiage revisions to the report contents, the Audit Manager will determine if the verbiage revisions are immaterial or need to be cleared by the Independent Reviewer.</li> <li>10. Ensure that all changes resulting from the independent review have been incorporated into the final version of the report.</li> <li>11. Ensure that all comments have been resolved.</li> <li>12. Sign the Audit Standards Plan Review Form before the audit report is issued.</li> </ol>
<b>Assistant City Auditor</b>	<ol style="list-style-type: none"> <li>13. Verify that all comments have been appropriately addressed.</li> <li>14. Resolve any remaining issues and ensure that sufficient action has been taken to produce a quality report.</li> <li>15. Review and approve the audit report changes.</li> <li>16. Based upon the quantity and type of Independent Reviewer's comments, determine if the audit team adequately prepared</li> </ol>



	and reviewed workpapers. If they did not, follow up with team to ensure future improvements in workpaper preparation and review.
--	--

### Example 1 – Referencing and Independent Review

*The Commercial and Multi-Family Recycling Rate Remains Low Despite Citywide Recycling Requirements*

While the City has been able to make improvements in the overall waste diversion rate over the last several years, increased diversion has largely resulted from the implementation of the Construction and Demolition Debris (C&D) Recycling Ordinance. According to ESD, since the ordinance was implemented in FY 2009, the recycling rate for C&D materials subject to the deposit program has been 85%,<sup>1</sup> and the amount of construction waste deposited in Miramar Landfill annually has declined from 400,000 tons per year to less than 40,000 tons per year. However, despite the concurrent implementation of the Citywide Recycling Ordinance (CRO) beginning in 2008, hauler waste and recycling reports provided by ESD indicate that the diversion rate for the City's 15,000 commercial and multi-family residential properties remains low – only 26% in CY 2013.

**Comment [A10]:** ACBOB  
SA OK 6/20/14

**Comment [A11]:** B-4/16-1 R5  
Diversion Rate 52% in 2004 and 68% in 2012  
SA OK 6/20/14

**Comment [A12]:** B-4/16-1 R1  
SA OK 6/20/14

**Comment [A13]:** B-4/14-1 R5  
SA-I do not see the 83% number or the R5. Please provide a reference for the footnote too. 6/20/14  
AH 6/23/14  
See B-4/3-1 Pg. 1 R3  
SA OK 6/23/14

**Comment [A14]:** B-4/20-1 P2 R2  
SA-Add "According to..." 6/20/14 The number is OK  
AH 6/20/14 added.  
SA OK 6/23/14

**Comment [A15]:** C-1/1-1 R2  
SA OK 6/20/14

**Comment [A16]:** F-2b/2-1 [Summary] R1  
SA OK 6/20/14

**Comment [A17]:** B-4/14-1 R1  
SA-Add "According to" or a footnote with the source for these numbers. 6/20/14 The number is OK.  
AH 6/20/14 added.  
SA OK 6/23/14

<sup>1</sup> This only includes C&D that is subject to the C&D Recycling Ordinance. ESD does not monitor recycling rates for C&D that is not subject to the ordinance.

## Example 2- Referencing Charts

Exhibit X: Spray and Pay Rewards Paid, FY 2011–2013

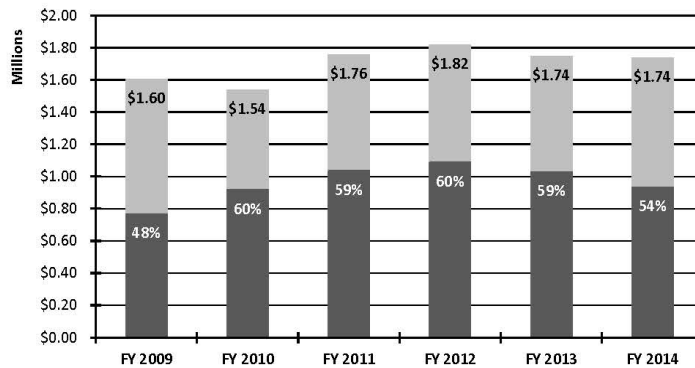
	FY 2011	FY 2012	FY 2013
Rewards Paid	8	7	1
Total Reward Amount	\$2,375	\$1,475	\$175

Source: OCA using data provided by DSD

Comment [MAC1]:  
C.C.9 p. 3 R1 – MAC 12/03/13  
OK TT 12/11/2013

## Example 3-Referencing Graphs

Exhibit 4: Total SD-OHS Funding and Percent Grant-Funded



Source: OCA using SD-OHS budget documents

### Comment [MAC19]:

See Exhibit 1 in Background

#### FY 2009

B-4 7-1 p. 503 R, B-4 7-1 p. 501 R1  
\$765,895/\$1,603,908=0.48

#### FY 2010

B-4 8-1 p. 439 R, B-4 8-1 p. 437 R1  
\$915,742/\$1,536,220=0.6

#### FY 2011

B-4 9-1 p. 448 R, B-4 9-1 p. 447 R1  
\$1,033,828/\$1,755,915=0.59

#### FY 2012

B-4 2-1 p. 492 R, B-4 2-1 p. 491 R1  
\$1,087,593/\$1,815,520=0.6

#### FY 2013

B-4 3-1 p. 380 R, B-4 3-1 p. 379 R1  
\$1,028,515/\$1,744,465=0.59

#### FY 2014

B-4 4-1 p. 354 R, B-4 4-1 p. 353 R1  
\$930,957/\$1,735,205=0.54

SJG Note: FY13 & 14 "grant" funding source does not appear to be from a grant, but a "charge for service" However, all referenced numbers are correctly sourced

MAC Sec 1c-2 p. 1 R

Reviewed SJG 06-05-14

**CITY OF SAN DIEGO  
OFFICE OF THE CITY AUDITOR  
RESULTS OF ANNUAL MONITORING PROCEDURES REVIEW**

**Purpose:** To document compliance with generally accepted government auditing standards requirement to review monitoring procedures.

**Criteria:** Government Auditing Standard specify that the audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

**Requirement:**

On annual basis, audit management will review its monitoring of quality procedures and analyze and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.

**Action:**

Date of Review	Reviewer	Changes Yes or No?	Changes

The annual monitoring procedures used to identify any systematic issues needing improvement will be documented in a memo outlining the steps taken and outcome for the City Auditor's review. The City Auditor's review will be documented in the chart above. The monitoring steps will include reviews of engagement workpapers and related administrative files to provide assurance that established policies and procedures are being followed in practice.

**CITY OF SAN DIEGO  
OFFICE OF THE CITY AUDITOR  
AUDIT STANDARDS REVIEW**

**Purpose**

To ensure that the audit project complies with the U.S. Comptroller General's *Government Auditing Standards*.

**Background**

The Audit Standards Review occurs at the end of the report writing phase. The intent of the final review is to ascertain that the audit staff has complied with the applicable General Standards, Field Work Standards, and Reporting Standards as described in the **Audit Standards Plan** below.

**Procedure**

<b>Audit staff</b>	1. Update the Audit Standards Plan to reflect the audit work performed upon completion of the Report Writing phase of the audit.
<b>Audit Standards Plan Reviewer</b>	2. Review the Audit Standards Plan for completeness. Write the review comments in an Audit Standards Review Worksheet.
<b>Audit Staff</b>	3. Address comments and make changes to the Audit Standards Plan or workpapers, if necessary. Refer any unresolved items to the Supervising Auditor and the City Auditor.
<b>Supervising Auditor and City Auditor</b>	4. Decide on any unresolved issues and take corrective action.
<b>Audit Staff</b>	5. File the documented Audit Standards Plan review in the audit workpapers.



## THE CITY OF SAN DIEGO

### OFFICE OF THE CITY AUDITOR AUDIT STANDARDS PLAN

**Audit:** \_\_\_\_\_

**Purpose:** The City Charter Article V Section 39.2 requires that we conduct audits in accordance to Generally Accepted Government Auditing Standards (GAGAS). In order to document compliance with GAGAS, an Audit Standards Plan form will be completed for each audit assignment; and independent review of the form will be performed.

Position	Signature	Date
Audit Standard Plan Preparer		
Audit Standard Plan Reviewer		
Independent Report Reviewer		
Independent Report Reviewer		
In-Charge Auditor		
Audit Manager (Supervisory Review and Approval of Audit Working Papers and Audit Evidence)		
Assistant City Auditor		
City Auditor		

GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
<b>ETHICS, INDEPENDENCE, AND PROFESSIONAL JUDGEMENT:</b>  Ethical principles apply in preserving auditor independence, taking on only work that the audit organization is competent to perform, performing high-quality work, and following the applicable standards cited in the audit report. (3.04)  In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent in mind and appearance. (3.18, 3.21)  Professional judgment includes exercising reasonable care and professional skepticism. (3.110)		
<p>The information presented in the chapter on Ethical Principles in Government Auditing deals with fundamental principles and does not contain additional requirements. However, audit organizations may choose to establish procedures that align with the principles included in generally accepted government auditing standards (GAS). (GAS 3.02)</p> <p>Because auditing is essential to government accountability to the public, the public expects audit organizations and auditors who conduct their work in accordance with GAS to follow ethical principles. Management of the audit organization sets the tone for ethical behavior throughout the organization by maintaining an ethical culture, clearly communicating acceptable behavior and expectations to each employee, and creating an environment that reinforces and encourages ethical behavior throughout all levels of the organization. The ethical tone maintained and demonstrated by management and staff is an essential element of a positive ethical environment. (GAS 3.03)</p> <p>The ethical principles that guide the work of the auditors who conduct audits in accordance with GAS are: a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and positions; and e. professional behavior. (GAS 3.06)</p>	<p>The City Auditor and all audit staff are required to adhere to and follow the five key ethical principles. On an annual basis, the City Auditor and all audit staff will review the five ethical principles and attest in writing that they will adhere to and follow the identified principles. In the event, the City Auditor or audit staff cannot comply with or adhere to the identified principles, they should immediately notify their appointing authority of the circumstances involving the ethical principles.</p>	<p>See <b>Audit Employee Training Folder</b> for copies of signed ethical principle statements.</p>
<p>1. Audit organizations are responsible and individual auditors must be independent and avoid situations that could lead reasonable and informed third parties to conclude that the auditors/organization are not independent. (3.18, 3.19).</p> <p>Quality Control System procedures should include using professional judgment to apply the Conceptual Framework for Independence (3.27-3.29) to:</p> <p>A. Verify auditors were independent during the period covered by the subject matter and period of the engagement. (3.20)</p> <p>B. Identify threats to independence (self-interest, self-review, bias, familiarity, undue influence, management participation) and evaluate their significance. (3.30)</p> <p>C. Identify structural threats to independence and evaluate their significance. (3.30)</p> <p>D. Determine whether identified threats to independence have been eliminated or are at an acceptable level and apply safeguards as necessary. (3.31-3.32, 3.49, 3.59)</p>	<p>To ensure compliance with the Independence Standard regarding personal and external impairments, all City Auditor staff will be required to sign an annual independence statement as outlined in Administrative Policy 1.3 and 1.3.1. An auditor will not be assigned to an audit with an existing impairment unless the assignment is unavoidable and safeguards are applied and assessed to eliminate the threat to independence, or reduce it to an acceptable level. If conditions lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence, the City Auditor will decline to perform the prospective audit or terminate an audit in progress.</p> <p>Should an actual or perceived impairment arise during an engagement the auditor is responsible for advising the City Auditor immediately. In any impairment cannot be resolved, the auditor with the impairment must be removed from the audit, or the impairment must be reported in the scope section of the report.</p>	<p>See <b>Audit Employee Training Folder</b> for copies of signed independence statement.</p> <p>Any impairment unresolved related to this audit engagement:</p> <p><input type="checkbox"/> None</p> <p><input type="checkbox"/> Yes See w/p reference</p> <p>Documenting actions taken. ]</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>E. Document threats to independence that require safeguards and safeguards applied. (3.33, 3.107.a and b)</p> <p>F. Decline or terminate the engagement if threats cannot be eliminated or reduced to an acceptable level. (3.59-3.60)</p> <p>G. Evaluate the impacts of threats identified after report issuance and take appropriate steps. (3.34)</p>		<p>Should an actual or perceived personal or external impairment arise after an audit report is issued, the auditor is responsible for advising the City Auditor immediately, and action will be taken in accordance with <a href="#">Section 3 of the Audit Manual</a>.</p>
<p>2. The ability of audit organizations to perform work and report the results objectively can be affected by placement within and the structure of the government entity being audited. The independence standard applies to auditors who report to third parties externally, to senior management within the audited entity, or both. Organizational independence can be achieved in various ways for external and internal audit organizations. (3.52)</p> <p>An external audit organization that is structurally located within the government entity and subject to constitutional or statutory safeguards that mitigate the effects of structural threats; safeguards may include a structure under which the audit organization is:</p> <ul style="list-style-type: none"> <li>at a level of government other than the one of which the audited entity is part (federal, state, local), or;</li> <li>placed within a different branch of government from that of the audited entity. (3.53)</li> </ul>	<p>The Office of the City Auditor reports to the City Council through their Audit Committee, the legislative branch, while the audited entities of the City report to the Mayor, the Chief Executive. As a result, the Office is structurally separated from the level of government audited by the Office of the City Auditor. The City Auditor is appointed by a legislative body, subject to removal by a legislative body, and reports the results of audits to and is accountable to a legislative body.</p> <p>The Office of the City Auditor was created by a 2008 City Charter amendment (Section 39.2), which granted broad authority and autonomy. There are a number of key safeguards in place to strengthen the Office's independence. These include the following:</p> <ul style="list-style-type: none"> <li>A City Charter amendment passed by the voters in 2008 created the Office of the City Auditor and only a City Charter change can abolish the Office (GAS 3.55a);</li> <li>The City Auditor serves a ten-year term and may be removed only for cause by a two-thirds vote of the City Council (GAS 3.55b);</li> <li>The City Charter grants the City Auditor with broad access to records and City staff, and with an additional San Diego Municipal Code Improper Influence Ordinance, criminalizes an intentional attempt to obstruct or influence an audit or resulting report (GAS 3.55c/3.55d/3.55g);</li> <li>The Office of the City Auditor is required to report to the city's Audit Committee, a committee made of two City Council members and three public members appointed by the City Council (GAS 3.55e); and</li> <li>The City Charter designates the City Auditor as the appointing authority over Office staff. As such, the City Auditor has control over selection, retention, advancement, and dismissal of staff (GAS 3.55f).</li> </ul>	<p>See <a href="#">City Charter Section 39.2</a> on City Clerk's Website</p>
<p>3. Before providing a nonaudit service to an audited entity, use the Conceptual Framework for Independence to:</p> <p>A. Determine whether the service is specifically prohibited or if providing the service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAS engagement performed. (3.64, 3.83, 3.87-3.90, 3.96-3.98, 3.102, 3.104, 3.106)</p> <p>B. Document the threat and safeguards applied if a threat that requires safeguards is identified. (3.107)</p>	<p>GAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to 1) identify threats to independence; 2) evaluate the significant of the threats; and 3) apply safeguards as necessary.</p>	<p>Nonaudit services provided related to this audit engagement:</p> <p><input type="checkbox"/> None provided</p> <p><input type="checkbox"/> Yes See w/p reference</p> <p><input type="checkbox"/>  </p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
		<p>See non-audit services binder that documents all non-audit services provided and compliance with GAS.</p>
<p>4. Before providing a management requested nonaudit service that could create a threat to independence, (3.73–3.78):</p> <p>A. Determine that the audited entity has designated an individual who understands and can oversee the service;</p> <p>B. Document consideration of management’s ability to oversee the service;</p> <p>C. Obtain agreement from audited entity management that management assumes all management responsibilities, oversees the services, evaluates the adequacy and results of the services provided, and accepts responsibility for the results; and</p> <p>D. Document the objectives, services to be provided, management’s acceptance of its responsibilities, the auditors’ responsibilities, and any limitations.</p>	<p>Although the Office of the City Auditor generally does not perform nonaudit services, in consultation with the Audit Committee, the City Auditor will consider performing requested non-audit service in the context of impact on the current audit workplan and to independence. Before the City Auditor will agree to provide a nonaudit service, it will be determined whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAS audit the Office of the City Auditor performs. The annual independence statement will be completed as outlined in Administrative Policy 1.3.1 for each nonaudit service considered, and compliance with GAS Sections 3.65 through 3.108 will be documented related to any nonaudit services the City Auditor agrees to perform. The City Auditor will decline requests to perform nonaudit services that impair the audit organization’s independence.</p>	<p>Nonaudit services provided related to this audit engagement:</p> <p><input type="checkbox"/> None provided</p> <p><input type="checkbox"/> Yes    See w/p reference <input type="checkbox"/></p> <p>See non-audit services binder that documents all non-audit services provided and compliance with GAS.</p>
<p>5. Evaluate the impact on independence of any previously performed nonaudit services before accepting prospective engagements. (3.83)</p>	<p>The annual independence statement will be completed as outlined in Administrative Policy 1.3.1 for each nonaudit service considered, and compliance with GAS Sections 3.65 through 3.108 will be documented related to any nonaudit services the City Auditor agrees to perform. The City Auditor will decline requests to perform nonaudit services that impair the audit organization’s independence.</p>	<p>See <b>Audit Employee Training Folder</b> for copies of signed independence statement.</p> <p>Any previously performed nonaudit service related to this audit engagement:</p> <p><input type="checkbox"/> None</p> <p><input type="checkbox"/> Yes    See w/p reference <input type="checkbox"/> documenting actions taken. <input type="checkbox"/></p>
<p>6. When performance of a required nonaudit service impairs independence with respect to a required engagement, disclose the nature of threats that could not be eliminated or reduced to an acceptable level and modify the GAS compliance statement accordingly. (3.84)</p>	<p>If an auditor was required to perform a nonaudit service that could impair his or her independence with respect to a required engagement, the nature of the threat that could not be eliminated or reduced to an acceptable level will be included in the report’s GAS statement.</p>	<p>See <b>Audit Employee Training Folder</b> for copies of signed independence statement.</p> <p>Any nonaudit service performed causing an impairment to independence that could not be eliminated or reduced to an acceptable level related to this audit engagement:</p> <p><input type="checkbox"/> None</p>



GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
		<p>___ Yes See w/p reference          ___ documenting          impairment and the language          added to GAS statement in audit          report.  </p>
<p>7. Use professional judgment (includes exercising reasonable care and professional skepticism) in planning and conducting engagements and in reporting the results. (3.109)</p>	<p>The Audit Manual includes procedures for conducting audit planning, risk assessment, and audit fieldwork, as well as procedures for preparing workpapers and report writing. Evidence that the professional judgment standard was met should include completed and approved audit programs for audit planning, field work, and report writing. If any of the audit phases are not performed, a written justification for not doing so should be included in the workpapers.</p> <p>Also, included should be a signed ethical principle statement form documenting awareness of required behavior.</p> <p>For each audit done in accordance with GAGAS, auditors should complete an Audit Standards Plan. The Audit Standards Plan includes procedures to ensure that internal procedures and GAGAS are followed.</p>	<p>[Audit Background ___</p> <p>Scoping Statement ___</p> <p>Risk Assessment ___</p> <p>Audit Program ___  </p> <p>Ethical Principle Statements In the <b>Audit Employee Training Folder</b></p>
<p><b>COMPETENCE AND CONTINUING PROFESSIONAL EDUCATION:</b></p> <p>Establishing the generally accepted government auditing standards (GAGAS) requirements for competence and continuing professional education (CPE). Competence includes being knowledgeable about the specific GAGAS requirements and having the skills and abilities to proficiently apply that knowledge on GAGAS engagements. CPE contributes to auditors' competence. (4.01)</p>		
<p>8. The auditors assigned to conduct an engagement collectively possess the necessary technical knowledge, skills, and abilities prior to beginning the engagement. (4.02)</p>	<p>The standards require that staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. Competence is derived from a blending of education and experience. Competencies are not necessarily measured by years of auditing experience because such a quantitative measurement may not accurately reflect the kinds of experiences gained by an auditor in any given time period. Maintaining competence through a commitment to learning and development throughout an auditor's professional life is an important element for auditors. Competence enables an auditor to make sound professional judgments. Audit management will assign staff to audits (financial, attestation, and performance), based on staff technical knowledge, skills, and experience.</p>	<p>See <b>Audit Employee Training Folder</b> for individual employee's resume and training records.</p> <p>Staff Assignment Form, w/p ___</p>
<p>9. Auditors assigned should have the skills needed for their assigned roles prior to beginning the engagement. (4.03)</p>	<p>The City Auditor assigns staff to the audit based on input from the Audit Manager. Staff assignments will be based on auditor availability, experience, knowledge, and familiarity with the audit subject. For each audit, a Staff Assignment Form will be completed to document assignment approval, and staff competence.</p>	<p>Staff Assignment Form, w/p ___.</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>10. The Audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of auditors. (4.04)</p>	<p>Management is responsible for ensuring that each employee receives an annual employee evaluation using the appropriate Admin 1.1.1 form. If employees are having difficulty in conducting their duties—e.g., performing audits in compliance with Government Auditing Standards (GAS); completing assigned tasks correctly and timely; not adhering to City or Office policies and procedures—Audit Management may place employees on an Employee Performance Development Plan. After receiving approval, an Audit Manager will draft the performance development plan provided in Admin 1.1.10, establish a reasonable timeline for improvement, and provide the plan to the Audit Staff person.</p> <p>The Office of the City Auditor will provide the required CPE by sending auditors to training sponsored by appropriate professional organizations or training providers, providing the CPE training in-house, and using other methods as appropriate.</p> <p>The purpose of this policy (Admin 1.2 – Professional Development) is to provide a mechanism for audit staff to maintain adequate professional competence to perform work in accordance to GAS; maintain technical knowledge and ability through learning and development; and enhance auditors’ knowledge, skills, and ability in areas applicable to performing audits. Procedures: Audit Management – Request Audit Staff complete an annual Professional Development Plan (Admin 1.2.1) to request the training they seek to obtain during the coming year.</p>	<p>See <b>Audit Employee Training Folder</b> for individual employee’s resume and training records and performance evaluations for <b>Audit Personnel Binders</b>.</p>
<p>11. The audit team should determine if external/internal specialists assisting with or performing GAS engagements are qualified and competent. (4.12)</p>	<p>In the event the Office of the City Auditor utilizes the services of external specialists to assist in performing GAGAS assignments, the City Auditor or his designee will assess the professional qualifications of such specialists including GAGAS CPE requirements, and document their findings and conclusions.</p>	<p>Were external specialists utilized in this audit?</p> <p><input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes, see w/p <input type="checkbox"/></p>
<p>12. Auditors are required to complete at least 80 hours of CPE every 2 years (minimum of 20 hours per year). At least 24 hours should be directly relate to government environment, government auditing, or specific environment in which the entity operates. Proration may apply. (4.16-4.17)</p>	<p>The 2018 GAO Government Auditing Standards requires auditors performing governmental audits to complete at least 80 hours of CPE each 2-year period to enhance professional competence and proficiency. The Government Auditing Standards also requires at least 20 of the 80 hours of CPE to be earned in each one of the 2 years, and that 24 hours be directly related to government auditing, the government environment or the specific or unique environment in which the audited entity operates. The City Auditor has adopted the policy that all staff auditors will meet this CPE requirement. The City will provide the required CPE by sending auditors to training sponsored by appropriate professional organizations or providing the CPE training in-house.</p>	<p>See main <b>Audit Employee Training Folder</b> for individual employee’s training records.</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>13. Audit organizations should maintain documentation of each auditor's CPE. (4.18)</p>	<p>It is the responsibility of City Auditor management to maintain quality control procedures to ensure auditors are in compliance with the CPE and staff competence requirements mandated by Government Auditing Standards.</p> <ul style="list-style-type: none"> <li>Periodically, City Auditor management will review the CPE recorded in the Training Logbook and the corresponding documentation kept in the Training Binder to verify the successful completion of CPE, and to ensure each auditor will receive training to be in compliance the Government Auditing Standards CPE requirements.</li> <li>City Auditor management will continually assess the skill level needed to fulfill the scope of audit projects and provide audit staff with the training necessary to meet those needs.</li> <li>Staff will be encouraged and supported to successfully complete the requirements to obtain professional certification designations such as Certified Internal Auditor, Certified Public Accountant, Certified Fraud Examiner, and/or other professional certification designations.</li> </ul>	<p>See main <b>Audit Employee Training Folder</b> for individual employee's training records.</p>
<p><b>QUALITY CONTROL AND PEER REVIEW</b></p> <p>The purpose of monitoring is to provide management of the audit organization with reasonable assurance that (1) the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice and (2) auditors have followed professional standards and applicable legal and regulatory requirements. (5.47)</p> <p>Each audit organization performing audits in accordance with GAGAS must:</p> <ol style="list-style-type: none"> <li>establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, (5.02) and</li> <li>have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. (5.60 – 5.61)</li> </ol>		
<p>14. Each Audit organization should document its quality control policies and procedures and communicate those policies and procedures to audit personnel. (5.02, 5.04)</p> <p>Policies and procedures should collectively address:</p> <ol style="list-style-type: none"> <li>Leadership responsibilities for quality within the audit organization. (5.05)</li> <li>Ensure those assigned responsibility for the system of quality control have the experience, ability, and authority needed. (5.06)</li> <li>Independence, legal, and ethical requirements. (5.08) (5.09)</li> <li>Initiation, acceptance, and continuance of engagements. (5.12)</li> <li>Ensuring personnel are capable and competent to perform engagements in accordance with professional standards, and legal and regulatory requirements. (5.15)</li> <li>Ensuring auditors meet the continuing professional education (CPE) requirements including maintaining</li> </ol>	<p>The Office of the City Auditor's quality control policies and procedures are document in Section 3 of the Audit Manual. Specifically, the completion of an Audit Standard Plan for each review documents compliance with Generally Accepted Government Auditing Standards.</p> <p>On annual basis, audit management will review its monitoring of quality procedures and analyze and summarize the results at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action.</p>	<p>See <a href="#">Section 3 of the Audit Manual</a> and the completed Audit Standard Plan.</p> <p>See the Results of Annual Monitoring Procedures Review.</p> <p>See main <b>Audit Employee Training Folder</b> for individual employee's resumes, training records, independence statements, ethical statements, and performance evaluations for <b>Audit Personnel Binders</b>.</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>documentation of CPE completed and any exemptions granted. (5.16)</p> <p>G. Engagement performance, documentation, and reporting processes to ensure engagements are performed and reported in accordance with professional standards, legal and regulatory requirements. (5.22)</p> <p>H. Ensuring consultation occurs on difficult or contentious issues among team members, nature and scope of consultations are documented and agreed upon, and conclusions are documented, understood, and implemented. (5.24)</p> <p>I. Ensuring personnel performing supervision or review have appropriate levels of skill and proficiency in auditing. (5.36)</p> <p>J. Retention of policies and procedures and engagement documentation for a period of time sufficient to permit those performing monitoring or peer review to evaluate compliance. (5.04, 5.46)</p> <p>K. Monitoring the audit organization's system of quality control. (5.42)</p> <p>L. Perform monitoring procedures, summarizing and analyzing the results at least annually, communicating any deficiencies and recommendations, and implementing appropriate actions to address deficiencies. (5.43, 5.44, 5.45)</p>		
<p>15. If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes. (5.23)</p>	<p>See Audit Manual Section 3: Audit Scope</p>	<p>Revised Scoping Memo</p>
<p>16. If an engagement is terminated before it is completed, document the work to date and why the engagement was terminated. (5.25)</p>	<p>Section 4 of the Audit Manual indicates that if an engagement is terminated prior to its completion that the Auditor should document the results of their work to date and why it was terminated. If an engagement is terminated, the City Auditor will issue a memo to the Audit Committee to communicate that the engagement is terminated prior to completion and it will state the work completed as of the date of the memo and why the engagement was terminated.</p>	<p>City Auditor Memo, as necessary ____</p>
<p>17. Assign and communicate responsibility for each engagement to an engagement partner or director. Define responsibilities of the assigned engagement partner/director and communicate that person's identity to management and those charged with governance. (5.37)</p>	<p>See Audit Manual Section 4: Job Start Letter</p>	<p>Job Start Letter w/p [____]</p>
<p>18. Audit organizations should have external peer review every three years. (5.60)</p>	<p>The policy is to comply with the external peer review requirement by having an external peer review every three years. The peer review could be done through a professional association, such as the Association of Local Government Auditors, or through an outside auditing firm.</p>	<p>See the most recent <a href="#">peer review report</a> on the City Auditor's website</p>
<p>19. Make peer review report publicly available via website (external) or to those charged with governance (internal). (5.77-5.78)</p> <p>When requested, provide peer review reports to party contracting for GAS engagement. When using another audit</p>	<p>The results of the peer review will be presented to the Audit Committee and the report posted on the City Auditor's Website.</p>	<p>See the most recent <a href="#">peer review report</a> on the City Auditor's website</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>organization's work, request a copy of its most recent peer review report. (5.79-5.80)</p>		
<b>STANDARDS FOR <u>PERFORMANCE AUDITS</u>:</b> <b>FIELDWORK STANDARDS FOR PERFORMANCE AUDITS: <u>PLANNING</u></b> <b>(QCS items 23 - 43 are for Financial and Attestation Audits and do not apply to Performance Audits)</b>		
<p>44. Auditors must plan and document work necessary to address audit objectives and reduce audit risk to an acceptably low level. (8.03-8.04)</p> <p>Auditors should design methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives. (8.06)</p>	<p>Audit planning is a comprehensive process that includes a preliminary survey and risk assessment. The purpose of audit planning process is to generate information and ideas to better understand the audit subject, determine the audit objective, and to develop the audit field work program. Planning also involves estimating the time and resources necessary to complete the audit. The evidence gathered in background research and later fieldwork is documented in the working papers. Key outputs of audit planning include an Audit Planning Memorandum; audit scope statement; risk and vulnerability assessment document; and field work audit program.</p>	<p>Audit Program [ ]</p> <p>Audit Planning Memorandum w/p [ ]</p> <p>Audit Scope Statement, w/p [ ]</p> <p>Risk and Vulnerability Assessment Document, w/p [ ]</p>
<p>45. Auditors should assess audit risk and significance within the context of the audit objectives and apply assessment to establish scope and methodology. (8.05)</p> <p>Identify and evaluate the effect of in-process legal proceedings or investigations. (8.27)</p> <p>Evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from prior engagement that are significant within the context of the audit objectives. (8.30)</p> <p>For provisions of laws, regulations, contracts, or grants that are significant within the context of the audit objectives Auditors should:</p> <ol style="list-style-type: none"> <li>Assess the risk of noncompliance; and</li> <li>Design and perform procedures to detect non-compliance. (8.68)</li> </ol>	<p>In the Office of the City Auditor, audit risk will be assessed in the audit planning phase of the audit and quality control component of the audit process. Once an entrance conference has been held, the in-charge auditor obtains and reviews <u>relevant</u> information related to the audit request. This may include obtaining information regarding the auditee's mission, goals and objectives, organizational structure, policies and procedures, processes, resources, outputs, and outcomes. The auditor's goal is to understand the program to be audited and to finalize the audit objectives. To accomplish these tasks, auditors should undertake a preliminary audit program to do the following:</p> <ul style="list-style-type: none"> <li>Review any resolution, committee and Independent Budget Analyst reports, testimony, and other pertinent documents, such as committee hearing notes and reports relating to the audit subject;</li> <li>Review the City Charter, ordinances, contracts, grant agreements, program memoranda, annual reports, recent budget requests, testimony, internal reports, policy and procedure manuals, and organizational charts relating to the audit subject;</li> <li>Review relevant literature, including identifying criteria and related audits conducted by other local government auditors;</li> <li>Interview agency staff;</li> <li>Review agency files and key memorandums and reports related to the audit;</li> </ul>	<p>Audit Program [ ]</p> <p>Audit Planning Memorandum [ ]</p> <p>Risk and Vulnerability Assessment [ ]</p> <p>Fraud Risk Assessment / Meeting [ ]</p>

GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
	<ul style="list-style-type: none"> <li>• Observe and document agency activities related to the audit;</li> <li>• Review the results of previous audits and attestation engagements that directly relate to the current audit objectives.</li> </ul>	
46. Identify and use suitable criteria based on the audit objectives. (8.07)	Upon completion of the Audit Planning Memorandum, the in-charge auditor will develop a Scoping Statement. The purpose of the Scoping Statement is to document and define the audit scope by establishing key audit questions to answer, identifying potential sources of evidence, and developing an audit budget. This process is intended to keep the planning process to a minimum by focusing on what we are going to do, why we are going to do it, and how we are going to do it. If done properly, the scoping work will help the team focus its risk assessment work around the tentative scope, methodology and objectives of the audit. The supervisor and in-charge auditor submit the Scoping Statement to the City Auditor for approval and review. A meeting will be held to discuss the scoping statement and the Audit Planning Memorandum.	<p>Audit Scope Statement w/p [ ]</p> <p>Audit Planning Memorandum [ ]</p>
47. Communicate the objectives, scope, methodology, timing and planned reporting of the audit to the appropriate parties. Document communications. If the identity of the appropriate parties is not clear, document the process used to make the identification. (8.20-8.22)	Once the job start letter has been sent to the auditee, the in-charge auditor will schedule an entrance conference to meet with the agency head and key staff. At the entrance conference, the City Auditor will: (1) introduce the members of the audit team, including the Audit Supervisor (2) explain the audit objective, scope, and methodology, and general process and timetable for the audit work, including the agency's deadlines to respond to preliminary findings and to the preliminary draft; (3) gain an understanding of the protocol to be followed in contacting staff and requesting information; (4) if applicable, request work space and network connectivity for the audit, and (5) solicit the views and concerns of the agency head on the project. Audit staff must document the meeting results, including a list of meeting attendees.	<p>Job Start Letter w/p [ ]</p> <p>Entrance Conference w/p [ ]</p>
48. Assign a sufficient number of appropriately skilled staff. (8.31)  Document nature and scope of work performed by specialists. (8.32)	The City Auditor assigns staff to the audit based on input from the Audit Manager. Staff assignments will be based on auditor availability, experience, knowledge, and familiarity with the audit subject. For each audit, a Staff Assignment Form will be completed to document assignment approval, and staff competence. After staff are assigned to an audit, an initial team meeting is held with the City Auditor to share information, discuss strategy (such as which officials to contact), and learn of the auditor's expectations. The meeting helps to identify project issues, their significance to potential users of the audit report, the contribution the office can make, and the availability of data and resources, and whether a consultant is required for the project. The in-charge summarizes the meeting in a memo, obtains approval	Staff Assignment Form, w/p [ ]

GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
	from the supervisor, and forwards a copy to the City Auditor.	
49. Auditors must prepare and update a written audit plan. (8.33)	<p>Based on the results of the scope review, preliminary survey, and risk assessment, the auditor develops an audit program that consists of the audit objectives, scope, methodology, and related concerns. The audit program includes detailed audit steps, tasks, and procedures to test if the identified controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. The supervisor reviews the audit program and the City Auditor approves the document.</p> <p>Auditors should follow the Audit Procedure Guidelines listed in developing the specific audit steps listed in the audit program. Specifically, based on the risk and vulnerability assessment, the in-charge auditor will write the audit program to determine if the controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. As the audit progress, the audit staff should document the key decisions about the audit objectives, scope, and methodology.</p>	Field work audit program, w/p [_____]

### FIELDWORK STANDARDS FOR PERFORMANCE AUDITS: CONDUCTING THE ENGAGEMENT

54. Auditors should obtain an understanding of the nature and profile of the program and the potential use of the audit results. (8.36)	<p>Once an entrance conference has been held, the in-charge auditor obtains and reviews <u>relevant</u> information related to the audit request. This may include obtaining information regarding the auditee's mission, goals and objectives, organizational structure, policies and procedures, processes, resources, outputs, and outcomes. The auditor's goal is to understand the program to be audited and to finalize the audit objectives. To accomplish these tasks, auditors should undertake a preliminary audit program to do the following:</p> <ul style="list-style-type: none"> <li>• Review any resolution, committee and Independent Budget Analyst reports, testimony, and other pertinent documents, such as committee hearing notes and reports relating to the audit subject;</li> <li>• Review the City Charter, ordinances, contracts, grant agreements, program memoranda, annual reports, recent budget requests, testimony, internal reports, policy and procedure manuals, and organizational charts relating to the audit subject;</li> <li>• Review relevant literature, including identifying criteria and related audits conducted by other local government auditors;</li> <li>• Interview agency staff;</li> <li>• Review agency files and key memorandums and reports related to the audit;</li> <li>• Observe and document agency activities related to the audit;</li> </ul>	<p>Job Start Letter _____</p> <p>Entrance Conference Write up _____</p> <p>Audit Planning Memorandum _____</p> <p>Risk Assessment and Vulnerability Assessment _____</p> <p>Fraud Risk Assessment / Meeting _____</p> <p>Audit Program _____</p>
---	--	--

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
	<ul style="list-style-type: none"> <li>Review the results of previous audits and attestation engagements that directly relate to the current audit objectives.</li> </ul>	
<p>55. Auditor should determine and document whether internal controls (including information systems controls) are significant to the audit objectives. (8.39)</p> <p>If it is determined that internal controls are significant then an auditor should obtain an understanding of the controls (8.40)</p> <p>For significant internal controls, auditors should assess and document their assessment of the design, implementation and/or operating effectiveness of the controls (8.49)</p> <p>Auditors should evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives. (8.54)</p> <p>Auditors should also determine whether it is necessary to evaluate information systems controls as it relates to the audit objectives. (8.59)</p>	<p>Once the scoping statement is completed, auditors need to identify and assess the risks associated with the agency, program, or policy under audit. The purpose of risk assessment is to identify and rate the threats facing the program or agency under audit, identify and assess the controls or procedures in place to prevent or mitigate such threats, and perform a vulnerability assessment of the audit risks and controls.</p> <p>To develop audit procedures to see if the controls or procedures the City has in place to prevent, eliminate, or minimize identified threats are working; determine if additional audit procedures are necessary to document threats actually occurring.</p> <p>The rationale for conducting a risk assessment is that auditors can limit testing and focus on those areas most vulnerable to noncompliance and abuse. This produces a more cost-effective and timely audit. In conducting a risk assessment, the auditor:</p> <ul style="list-style-type: none"> <li>Identifies the threats associated with the area or activity under review;</li> <li>Determines the inherent risk associated with the identified threats; and</li> <li>Assesses whether the existing internal controls will prevent, detect, or correct instances when threats actually occur.</li> </ul> <p>The extent of audit testing is directly related to an assessment of the activity's degree of vulnerability. The higher the vulnerability, the more extensive the audit testing needs to be and vice versa. Thus, even though an activity may have a high degree of inherent risk, a strong system of internal controls can reduce the entity's exposure to a low or moderate level. Accordingly, the need to conduct detailed audit tests could be reduced to an appropriate level</p> <p>The risk assessment work should be documented in the audit working papers. This assessment should serve as the foundation for the developing the detailed audit steps and tests to be performed in the Audit Program. The risk assessment should be documented in a completed risk matrix and relevant to the audit objectives.</p>	<p>Audit Planning Memorandum w/p [ ]</p> <p>Audit Scope Statement, w/p [ ]</p> <p>Risk and Vulnerability Assessment, w/p [ ]</p> <p>Audit Program [ ]</p>
<p>56. Auditors should determine which audit procedures related to information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. (8.61)</p> <p>When evaluating information systems controls is an audit objective, test controls to the extent necessary to address the audit objective. (8.62)</p>	<p>In the Office of the City Auditor, audit risk will be assessed in the audit planning phase of the audit and quality control component of the audit process. The Audit Manual includes procedures for conducting audit planning, risk assessment, and audit fieldwork.</p> <p>Audit planning is a comprehensive process that includes a preliminary survey and risk assessment. It is important for auditors to understand information systems controls when</p>	<p>Risk and Vulnerability Assessment, w/p [ ]</p> <p>Audit Program [ ]</p> <p>Data Reliability Questionnaire w/p [ ]</p>



<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>Auditors should assess the sufficiency and appropriateness of computer-processed information regardless of whether this information is provided to auditors or auditors independently extract it. (8.98)</p>	<p>information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. (8.63) Information systems controls consist of those internal controls that depend on information systems processing and include general controls, applications controls, and user controls. (8.64)</p> <p>Audit staff may determine the validity and reliability of the data by direct tests of the data. The amount of such tests of the data can be reduced if a test of the effectiveness of the entity's controls over the validity and reliability of the data support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support audit findings. Audit staff should document tests done regarding the reliability of the data obtained from the auditee.</p> <p>When the tests of data disclose errors in the data, or when audit staff are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, audit staff may find it necessary to (1) seek evidence from other sources, (2) redefine the audit's objectives to eliminate the need to use the data, or (3) use the data, but clearly indicate the data's limitations and refrain from making unwarranted conclusions or recommendations.</p> <p>Evidence may also include data gathered by third parties. In some cases, these data may have been audited by others and in other cases, it may not be practical to obtain evidence of the data's validity and reliability. The use of un-audited third-party data in an audit report will depend on the data's significance to the audit findings.</p>	<p>Data Reliability Sign off w/p _____</p> <p>If applicable, Data Reliability Testing Plan w/p _____</p>
<p>57. Gather and assess information to identify the risk of fraud related to the audit objectives. If fraud may have occurred, extend audit steps and procedures to determine whether fraud has likely occurred and the effect on the audit findings. (8.71-8.72)</p>	<p>Auditors should extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred. Auditors should document in the working papers and audit program when audit procedures are extended. If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. In fraud-related situations, our policy will be not to interfere with legal proceedings or investigations.</p>	<p>Fraud Risk Assessment / Meeting _____</p> <p>Was fraud or abuse noted in the working papers or report?</p> <p>___ None reported</p> <p>___ Yes, see w/p _____ (includes Specialist's Independence Statement)</p>
<p>59. Determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. Evaluate whether internal control or other program weaknesses are the cause when auditors conclude that sufficient, appropriate evidence is not available. (8.77-8.78)</p>	<p>The purpose of the Scoping Statement is to document and define the audit scope by establishing key audit questions to answer, identifying potential sources of evidence, and developing an audit budget.</p>	<p>Audit Scope Statement w/p _____</p> <p>Was sufficient, appropriate evidence available?</p>

GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
	When auditors conclude that sufficient, appropriate evidence is not available, auditors should evaluate whether internal control or other program weaknesses are the cause.	<input type="checkbox"/> Yes  <input type="checkbox"/> No    See w/p reference <input type="checkbox"/>
60. Determine whether other auditors have conducted or are conducting audits that are relevant to the audit objectives. If the work of other auditors is used, obtain evidence of the other auditors' qualifications and independence and perform procedures to determine whether the work can be relied upon. (8.80-8.81)	Upon completion of the Audit Planning Memorandum, the in-charge auditor will develop a Scoping Statement. The purpose of the Scoping Statement is to document and define the audit scope by establishing key audit questions to answer, identifying potential sources of evidence, and developing an audit budget. This process is intended to keep the planning process to a minimum by focusing on what we are going to do, why we are going to do it, and how we are going to do it. If done properly, the scoping work will help the team focus its risk assessment work around the tentative scope, methodology and objectives of the audit. The supervisor and in-charge auditor submit the Scoping Statement to the City Auditor for approval and review. A meeting will be held to discuss the scoping statement and the Audit Planning Memorandum.	Audit Scope Statement w/p _____
61. The City Auditor or his designee will assess independence for any specialists used. (8.82)	In the event the Office of the City Auditor utilizes the services of external specialists to assist in performing GAGAS assignments, the City Auditor or his designee will assess the professional qualifications and competency of such specialists including GAGAS CPE requirements, and document their findings and conclusions.	Were external specialists utilized in this audit?  <input type="checkbox"/> No <input type="checkbox"/> Yes, see w/p _____
<b>FIELDWORK STANDARDS FOR PERFORMANCE AUDITS: <u>SUPERVISION</u></b>		
62. Properly supervise audit staff. (8.87)	<p>The Supervising Auditor review ensures that the quality control reviews are performed on time and adequately documented. Supervisory review usually consists of continuous review of audit work and working papers. Supervisory review also helps ensure that all audit reports are supported by evidence documented in the audit workpapers; opinions and conclusions are logical and consistent; and all applicable GAGAS standards were met.</p> <p>Supervisory review includes:</p> <ul style="list-style-type: none"> <li>(f) attendance at team meetings to monitor audit progress;</li> <li>(g) participation at the preliminary survey meeting to discuss potential risk exposures of organizational unit under review and define areas that warrant audit attention;</li> <li>(h) participation at fieldwork meetings to review audit results and finalize draft outline;</li> <li>(i) review of key working papers; and</li> <li>(j) review of draft reports.</li> </ul>	<p>See the reporting structure documented in the <a href="#">Office of the City Auditor Organizational Chart</a></p> <p>See page 1 of Audit Standard Plan sign-off sheet for evidence of supervisory review of working papers.</p> <p>Review of Evidence Form, w/p [_____]</p>

GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
	<p>The Supervising Auditor Review includes the review of workpapers to ensure that the audit workpapers comply with the workpaper organization and control guidelines described in the Audit Manual and Government Auditing Standards. Subject to the approval of the City Auditor, the Supervising Auditor may delegate the review of workpapers to another member of the audit staff provided that person is sufficiently experienced and competent to perform the task(s).</p> <p>The In-Charge/Supervising Auditor is responsible for ensuring that the audit is performed in accordance with Government Auditing Standards and the City Auditor Policies and Procedures Manual. The In-Charge Review includes assessing the requirements of the audit assignment.</p>	
<b>FIELDWORK STANDARDS FOR PERFORMANCE AUDITS: <u>EVIDENCE</u></b>		
<p>63. Auditors must obtain sufficient, appropriate evidence to provide reasonable basis for addressing the audit objectives and supporting their findings and conclusions. (8.90-8.92) Sufficiency refers to the amount of evidence gathered and presented. Appropriateness refers to the quality of evidence including its relevance to the audit objectives, reliability, and validity. (8.99-8.103)</p>	<p>Audit Manual Section 6 covers the Office of the City Auditor's policy regarding audit evidence. Section 6 addresses elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.</p>	<p>See audit summary workpapers, pgs <input type="text"/></p>
<p>64. When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. (8.93)</p> <p>Auditors should evaluate the objectivity, credibility, and reliability of testimonial evidence. (8.94)</p>	<p>Testimonial evidence is obtained through responses to inquiries, surveys, or interviews. Testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. Testimonial representations may be included in report, but must be attributed. Whenever possible, important information from interviews is corroborated with additional evidence.</p> <p>Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions.</p> <p>Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.</p> <p>When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. The auditor may find it necessary to perform testing of management's procedures to obtain assurance or perform direct testing of the information. The nature and extent of the auditors' procedures will depend on the significance of the information to the audit objectives and the nature of the information being used.</p>	<p>See audit working papers in MKInsight</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>65. Auditors should document the assessment that evidence taken as a whole is sufficient and appropriate to support their findings and conclusions. (8.108)</p> <p>When assessing the overall sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions; available corroborating evidence; and the level of audit risk. If auditors conclude that evidence is not sufficient or appropriate, they should not use such evidence as support for findings and conclusions. When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should perform additional procedures, as appropriate. (8.109-8.110)</p>	<p>In order to document compliance with GAGAS, a Review of Evidence form will be completed for each audit assignment. The Audit Manager in charge of the assignment will review the evidence documented in the workpapers to determine if the evidence taken as a whole, including the use of testimonial evidence and appropriateness of computer-processed information, is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Based on the assessment of the evidence, apply additional procedures, redefine the audit objectives, or revise the findings and conclusions, if necessary.</p>	<p>Review of Evidence Form, w/p <input type="text"/></p>
<p>66. Plan and perform procedures to develop the criteria, condition, cause, and effect of the findings to the extent they are relevant and necessary to achieve the audit objectives. Consider internal control deficiencies when determining cause. (8.116-8.117)</p>	<p>Audit findings must contain condition, criteria, cause, effect, and recommendations. However, the elements needed for a finding depend entirely on the objectives of the audit. A finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements. For each audit finding, a Finding Development Worksheet form should be completed.</p>	<p>See Task 4.1: Finding Development Worksheet Report Outline in MKInsight w/p <input type="text"/></p>
<b>FIELDWORK STANDARDS FOR PERFORMANCE AUDITS: <u>DOCUMENTATION</u></b>		
<p>68. Auditors must prepare and maintain sufficient audit documentation related to planning, conducting, and reporting on the audit to support findings, conclusions, and recommendations before issuing the report. (8.132-8.134)</p> <p>Auditors should document the following:</p> <ul style="list-style-type: none"> <li>a. the objectives, scope, and methodology of the audit;</li> <li>b. the work performed and evidence obtained to support significant judgments and conclusions, as well as expectations in analytical procedures, including descriptions of transactions and records examined (for example, by listing file numbers, case numbers, or other means of identifying specific documents examined, though copies of documents examined or detailed listings of information from those documents are not required); and</li> <li>c. supervisory review, before the audit report is issued, of the evidence that supports the findings, conclusions. (8.135)</li> </ul>	<p>Audit evidence is documented in audit working papers. Data gathered by audit staff include their own observations and measurements, questionnaires, structured interviews, direct observations, and computations.</p> <p>Data gathered by the auditee can be used by audit staff as part of their evidence. Audit staff may determine the validity and reliability of the data by direct tests of the data. The amount of such tests of the data can be reduced if a test of the effectiveness of the entity's controls over the validity and reliability of the data support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support audit findings. Audit staff should document tests done regarding the reliability of the data obtained from the auditee.</p> <p>When the tests of data disclose errors in the data, or when audit staff are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, audit staff may find it necessary to (1) seek evidence from other sources, (2) redefine the audit's objectives to eliminate the need to use the data, or (3) use the data, but clearly indicate the data's limitations and refrain from making unwarranted conclusions or recommendations.</p> <p>Evidence may also include data gathered by third parties. In some cases, these data may have been audited by others and in other cases, it may not be practical to obtain evidence of the data's validity and reliability. The use of un-audited</p>	<p>See audit working papers in MKInsight at the following stages:</p> <p>Stage 1: Administration _____</p> <p>Stage 2: Planning _____</p> <p>Stage 3: Risk Assessment _____</p> <p>Stage 4: Fieldwork _____</p> <p>Stage 5: Report Writing _____</p> <p>Task 6.2 Review of Evidence Form _____</p> <p>Cold Review copy of the report _____</p>

GAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
	third-party data in an audit report will depend on the data's significance to the audit findings.	
69. Auditors should document departures from GAGAS requirements and the impact on the audit and auditors' conclusions (8.136)	Auditors should document in the working papers departures from GAS requirements and the impact on the audit and auditors' conclusions.	Did the auditors depart from GAS requirements?  ___ None reported  ___ Yes  See w/p reference _____
70. The audit organization should make appropriate individuals and audit documentation available to other auditors or reviewers upon request, subject to applicable laws and regulations. (8.140)	<p>During an engagement, the in-charge and team members are responsible for the safe custody of working papers. These materials must be protected from theft or destruction and be accessible only to authorized persons. As a general rule, working papers should not be left at the auditees' work site unless they can be secured under lock. As needed, sensitive or confidential materials may be placed in locked cabinets. To safeguard their data, auditors should back up their computer data files to a zip drive or disk as necessary.</p> <p>In order to comply with California State Government Code Section 36525 regarding retention and disclosure of audit working papers, the Audit Office policy will include the following:</p> <ul style="list-style-type: none"> <li>• Retain all audit work papers on site for at least three years.</li> <li>• Retain workpapers in City storage for at least five years to comply with City retention policy.</li> <li>• Retain financial or Federal grant related workpapers for at least seven years to comply with Federal regulations [Federal Register Volume 69 No.138].</li> </ul> <p>Withhold from public disclosure all information related to audits that are in progress and not yet completed.</p> <p>Withhold from public disclosure information that is collected in the course of audit work, but is not used to support a specific finding in the audit.</p> <p>At the City Auditor's discretion, hold confidential any information from anyone cooperating with an audit who has requested, in writing, that we do so.</p>	See <a href="#">audit manual section 6</a> for the Office of the City Auditor's policies and procedures regarding working paper documentation.
<b>FIELDWORK STANDARDS FOR PERFORMANCE AUDITS: <u>REPORTING</u></b>		
72. When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS. (9.03-9.05)	All City Auditor reports will be done in accordance to GAGAS and will have the required statement in the Objective, Scope, and Methodology section of the audit report. In the event of non-compliance with any applicable GAGAS requirement, we should include a modified	Standards statement is shown on report page, _____

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.</p> <p>Audit organizations that meet the independence requirements for internal audit organizations, but not those for external audit organizations, should include in the GAGAS compliance statement, where applicable, a statement that they are independent per the GAGAS requirements for internal auditors.</p> <p>When auditors do not comply with all applicable GAGAS requirements, they should include a modified GAGAS compliance statement in the audit report.</p>	<p>GAGAS compliance statement in the audit report. We can modify the above statement and indicate the standard that was not followed or specify that we did not follow GAGAS.</p>	<p>Was the statement modified? No ____</p> <p>Yes ____ see page ____</p>
<p>73. Auditors should issue audit reports communicating the results of each completed performance audit and in a form that is appropriate for its intended use, either in writing or in some other retrievable form. (9.06-9.07)</p>	<p>Section 7 of the Audit Manual documents the report writing process, identifies GAGAS standards related to reporting for performance audits, and documents the Office of the City Auditor policies and procedures and steps related to developing and issuing an audit report. The reporting standards for performance audits relate to the form of the report, the report contents, and report issuance and distribution.</p> <p>Auditing standards require that auditors must issue audit reports communicating the results of each completed performance audit. The standards provide auditors flexibility in determining reporting format. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. For example, auditors may present audit reports using electronic media that are retrievable by report users and the audit organization. The users' needs will influence the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials. The City Auditor will decide on the most appropriate report format.</p>	<p>See audit report, w/p ____</p>
<p>74. Auditors should prepare audit reports that contain:</p> <ul style="list-style-type: none"> <li>- Objectives, scope (including limitations and constraints), and methodology of the audit;</li> <li>- Audit results, including findings, conclusions, and recommendations, as appropriate;</li> <li>- Statement about the auditors' compliance with GAGAS;</li> <li>- Summary of the views of responsible officials; and</li> </ul>	<p>Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; (5) if applicable, the nature of any confidential or sensitive information omitted; and (6) the methodology of sampling used, along with the design, the reason for the chose and whether the results ca be projected to the population. The Audit Standards Plan will document compliance with these provisions. The published report</p>	<p>See audit report:</p> <p>Objective, Scope, and Methodology, page ____</p> <p>Findings, page ____</p> <p>Conclusions, page ____</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<ul style="list-style-type: none"> <li>- Nature of any confidential or sensitive information omitted, if applicable; and</li> <li>- In reporting methodology when sampling significantly supports findings, conclusion. Or recommendations, include same design, the reason it was chosen, and whether results can be projected to the population. (9.10-9.14)</li> </ul>	<p>should include an executive summary, mission statement describing the purpose and authority of the office, title page, transmittal letter, table of contents, introductory material, background, findings, recommendations, notes, appendixes, and responses of the affected agencies.</p>	<p>Recommendation page _____</p> <p>Compliance statement, page _____</p> <p>Responsible views (response), page _____</p> <p>If applicable, confidential or sensitive information omitted, page _____</p>
<p>75. Auditors should report conclusions based on objectives and audit findings. (9.19)</p>	<p>Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary. All audit reports must have conclusions.</p>	<p>See audit report, conclusion(s) on page _____.</p>
<p>76. Include audit results and related conclusions. Present sufficient, appropriate evidence to support the findings and conclusions in relation to audit objectives. Describe any evidence limitations. (9.18, 9.20-9.22)</p>	<p>1. Audit Supervisor reviews the draft report by checking that evidence is accurate and sufficient and that the findings, conclusions, and recommendations are well-argued and supported.</p> <ul style="list-style-type: none"> <li>• Overall quality of the draft and its consistency with the reporting standards for content and presentation.</li> <li>• Responsiveness to the assignment objectives.</li> <li>• Soundness of the evidence supporting the findings and recommendations.</li> <li>• Logic, reasonableness, and soundness of the argument supporting the findings and recommendations.</li> <li>• Appropriateness, constructiveness, and specificity of recommendations.</li> <li>• Professional quality of the writing and presentation.</li> </ul> <p>Once the Supervisor's comments have been addressed, the report draft is submitted to the City Auditor for review.</p> <p>2. The City Auditor reviews the draft report for message content, readability, and tone. The in-charge auditor makes changes to the report draft as appropriate and submits the revised report draft back to the City Auditor for review. At this point, the report draft may undergo a separate editorial review.</p> <p>3. After the City Auditor approves the draft report for issuance, the draft report undergoes an Independent Report Review. As discussed in Section 3, the independent report review is an important component of our quality assurance</p>	<p>See Page 1 of this document – Audit Standards Plan</p> <p>See Independent Report Review (Cold Review Copy of the report), w/p _____</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
	<p>program. It is a detailed word-by-word, line-by-line examination of an indexed office draft of the report to ensure that its contents are accurate and supported. The City Auditor or Supervisor assigns an audit staff member who has not worked on the project to verify the accuracy of the information and whether the evidence supports the contents of the draft. Once this process is complete, the report will be prepared for distribution, including proper formatting.</p>	
<p>77. Auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended. (9.23)</p>	<p>Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.</p> <p>Recommendations should be specific and clear, and directed at resolving the cause of identified problems. Auditors should avoid using verbs such as, consider or may in report recommendations, but make recommendations that are action oriented. Recommendations should be made to improve operations or program effectiveness, or improve economy and effectiveness.</p>	<p>See audit report, recommendations on page, _____.</p>
<p>78. Auditors should include in the audit report:</p> <ul style="list-style-type: none"> <li>- the scope of work on internal controls, and</li> <li>- any significant deficiencies found when internal control is significant to the context of the audit objectives.</li> </ul> <p>If all internal control components are not significant to the audit, include the significant components and related principles in the scope. Communicate in writing deficiencies that are less than significant but warrant the attention of governance. Refer to separate written communication to officials in audit report. (9.29-9.31)</p>	<p>Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report.</p>	<p>See audit report, page _____</p>
<p>80. When auditors conclude, based on sufficient, appropriate evidence, that fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse either has occurred or is likely to have occurred which is significant to the audit objectives, they should report the matter, in writing, as a finding. (9.35-9.36, 9.40-9.41)</p>	<p>When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding.</p> <p>When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both</p>	<p>If applicable, see audit report, page _____</p>



<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
	<p>qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.</p> <p>When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.</p>	
<p>81. Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse directly to parties outside the audited entity when, (a) entity management fails to satisfy legal or regulatory requirements to report such information to external parties, and/or (b) when entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse.</p> <p>Auditors should comply with the requirements in paragraph 9.45 even if they have resigned or been dismissed from the audit prior to its completion.</p> <p>Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate representations by audited entity management that it has reported audit findings in accordance with provisions of laws, regulations, or funding agreements. When auditors are unable to do so, they should report such information directly. (9.45-9.47)</p>	<p>When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding.</p> <p>When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.</p> <p>When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.</p>	<p>If applicable, see audit report, page _____</p>
<p>80. Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations in the audit report, as well as any planned corrective actions.</p> <p>When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments or a summary of the comments received. When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments, provide a copy of the summary to the</p>	<p>All audited entity officials will be provided ample opportunity to review and comment on draft audit reports. Once a draft audit report has been approved by the City Auditor and has undergone Independent Report Review, a draft report will be issued to management to discuss at an exit conference.</p> <p>The purpose of the exit conference meeting is to provide the responsible officials of the audited program the opportunity to state their views concerning the auditors' findings, conclusions, and recommendations, as well as corrections</p>	<p>See exit conference w/p _____</p> <p>See email and preliminary draft that is sent to auditee for discussion at the exit conference w/p _____</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>responsible officials to verify that the comments are accurately represented, and include the summary in their report.</p> <p>When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported by sufficient, appropriate evidence.</p> <p>If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments. (9.50-9.53)</p>	<p>planned. To ensure that the audit report is fair, complete, and objective, the City Auditor provides the auditee an audit report draft and invites auditee representatives to the Exit Conference in which the auditee representatives can state their views concerning the audit findings, conclusions, and recommendations. At this meeting, the auditee representatives will also explain the corrections they plan to do in response to the audit findings and recommendations. Based on the outcome of the exit conference, a final draft report, incorporating any changes discussed at the meeting will be issued to management. Entity management will have two weeks to respond to the final draft report. The City Auditor may grant a one week extension. <i><b>Note: the new response period will require changing Administrative Regulation 15.10 which allows Department Directors 60 days to respond to audit recommendations.</b></i></p> <p>In addition to their written response, entity management may submit a separate one to two page memorandum of program accomplishments to include in the final draft report. This memorandum helps ensure that the final report is fair, complete, and objective.</p> <p>If the entity refuses to provide comments or is unable to provide comments after a reasonable amount of time, the City Auditor will add a statement indicating that no response was provided.</p>	
<p>80. Distribute Distribution of reports completed in accordance with GAGAS depends on the auditors' relationship with the audited organization and the nature of the information contained in the reports. Auditors should document any limitation on report distribution. Auditors should make audit reports available to the public, unless distribution is specifically limited by the terms of the engagement, law, or regulation.</p> <p><b><i>Report Distribution for Internal Auditors</i></b></p> <p>If an internal audit organization in a government entity follows the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing as well as GAGAS, the head of the internal audit organization should communicate results to the parties who can ensure that the results are given due consideration. If not otherwise mandated by statutory or regulatory requirements, prior to releasing results to parties outside the organization, the head of the internal audit organization should (1) assess the potential risk to the organization, (2) consult with senior management or legal counsel as appropriate, and (3) control dissemination by indicating the intended users in the report.</p> <p><b><i>Report Distribution for External Auditors</i></b></p> <p>An audit organization in a government entity should distribute audit reports to those charged with governance, to the appropriate audited entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for</p>	<p>Auditing standards require that we distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports. All reports will be made available to the public by posting them on the City Auditors website except when certain information may be classified or otherwise prohibited from general disclosure.</p>	<p>See issuing email and report with the audit transmittal letter, page _____</p>

<b>GAS 2018 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<p>the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports.</p> <p>A public accounting firm contracted to conduct an audit in accordance with GAGAS should clarify report distribution responsibilities with the engaging party. If the contracting firm is responsible for the distribution, it should reach agreement with the party contracting for the audit about which officials or organizations will receive the report and the steps being taken to make the report available to the public. (9.56-9.59)</p>		
<p>84. If certain information is prohibited from public disclosure or is excluded from a report because of its confidential or sensitive nature, auditors should disclose in the report that certain information has been omitted and the circumstances that make the omission necessary.</p> <p>When circumstances call for omission of certain information, auditors should evaluate whether this omission could distort the audit results or conceal improper or illegal practices and revise the report language as necessary to avoid report users drawing inappropriate conclusions from the information presented.</p> <p>When the audit organization is subject to public records laws, auditors should determine whether public records laws could affect the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. Auditors use judgment to determine the appropriate means to communicate the omitted information to management and those charged with governance considering, among other things, whether public records laws could affect the availability of classified or limited use reports. (9.61-9.63)</p>	<p>If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary.</p> <p>Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified or limited use report containing such information and distribute the report only to persons authorize. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report.</p>	<p>Was information omitted from the audit report?</p> <p>_____ No</p> <p>_____ Yes, see report pg _____</p>
<p>85. If after the report is issued, auditors discover that they did not have sufficient, appropriate evidence, they should communicate this information to appropriate officials, remove the report from publicly accessible websites, and determine whether to conduct additional audit work necessary to revise or confirm the original findings and conclusions. (9.68)</p>	<p>If after a report is issued, auditors discover that they did not have sufficient, appropriate evidence, the City Auditor will communicate this information to appropriate officials, remove the report from the Office of the City Auditor website, and determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions.</p>	<p>Audit staff assigned to this project have been made aware of this requirement.</p>

## **Section 3**

# **Field Work Standards for Performance Audits— Evidence, Significance, Audit Risk, and Planning**

This section documents the auditing standards for performance audits related to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of evidence, significance, and audit risk form a framework for applying these standards and are included throughout the discussion of performance audits. Section 4 documents how the Office of the City Auditor complies with the Field Work standards.

### **Evidence**

Performance audits that comply with GAGAS provide reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives, findings, and conclusions. Objectives for performance audits range from narrow to broad and involve varying types and quality of evidence. In some engagements, sufficient, appropriate evidence is available, but in others, information may have limitations. Professional judgment assists auditors in determining the audit scope and methodology needed to address the audit objectives, while providing the appropriate level of assurance that the obtained evidence is sufficient and appropriate to address the audit objectives. Reasonable assurance is provided by a rigorous planning process and through implementation of the City Auditor's quality assurance program.

### **Significance in Performance Audits**

The concept of significance assists auditors throughout a performance audit, including when deciding the type and extent of audit work to perform, when evaluating results of audit work, and when developing the report and related findings and conclusions. Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity. Professional judgment assists auditors when evaluating the significance of matters within the context of the audit objectives. Significance is documented through the audit scoping statement (Section 4) and the finding development process discussed in Section 5.

## **Audit Risk**

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors such as the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes to detect inconsistencies, significant errors, or fraud; and auditors' access to records, also impact audit risk. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be reduced by taking actions such as increasing the scope of work; adding experts, additional reviewers, and other resources to the audit team; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

### **Office of the City Auditor Policy on Audit Risk**

In the Office of the City Auditor, audit risk will be assessed in the audit planning phase of the audit and quality control component of the audit process. Section 4 discusses the audit planning process.

## **Planning**

Government Auditing Standards requires that auditors must adequately plan and document the planning of the work necessary to address the audit objectives. Specifically, the standards require that auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to provide reasonable assurance that the evidence is appropriate to support the auditor's findings and conclusions. In planning the audit, auditors should assess significance and audit risk and apply these assessments in defining the audit objectives and the scope and methodology to address those objectives. Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope, and methodology as work is being completed.

**Audit objectives:** The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can

be considered questions that auditors try to answer based on evidence obtained and assessed against criteria.

**Audit scope:**

Scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes. Changes should be documented in a revised Scoping Memo.

**Audit methodology:**

The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors will carry out to address the audit objectives. Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. Methodology includes both the nature and extent of audit procedures used to address the audit objectives.

The standards also provide that auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:

- a.** the nature and profile of the programs and the needs of potential users of the audit report;
- b.** internal control as it relates to the specific objectives and scope of the audit;
- c.** information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;
- d.** legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that are significant within the context of the audit objectives; and
- e.** the results of previous audits and attestation engagements that directly relate to the current audit objectives.

During planning, auditors must:

- a.** identify the potential criteria needed to evaluate matters subject to audit;
- b.** identify sources of audit evidence and determine the amount and type of evidence needed given audit risk and significance;
- c.** evaluate whether to use the work of other auditors and experts to address some of the audit objectives;
- d.** assign sufficient staff and specialists with adequate collective professional competence and identify other resources needed to perform the audit;
- e.** communicate about planning and performance of the audit to management officials, those charged with governance, and others as applicable; and
- f.** prepare and update a written audit plan.

# Section 4

## Audit Process: Audit Planning To Fieldwork

Section 4 documents how the Office of the City Auditor complies with standards related to reasonable assurance, significance, audit risk, and planning. This section provides guidance on the how to apply those standards in conducting audits based on the Citywide Risk Assessment model or requested audits. Specifically, this section will cover the initial planning phase of the audit (preliminary survey) that begins with start the audit, preliminary survey and risk assessment, and development of the audit program. The purpose of audit planning process is to generate information and ideas to better understand the audit subject, determine the audit objective, and to develop the audit field work program. Planning also involves estimating the time and resources necessary to complete the audit. The evidence gathered in background research and later fieldwork is documented in the working papers. Key outputs of audit planning include an audit planning memorandum; audit scope statement; risk and vulnerability assessment document; and field work audit program.

### AUDIT PLANNING PROCESS

The audit planning process can be divided into the following three phases: 1) starting the project, 2) preliminary survey (planning the audit and conducting risk assessment), and 3) developing the audit program. These steps are followed by fieldwork and reporting. Details of each of the steps are noted below:

Audit Start
<ul style="list-style-type: none"><li>○ City Auditor assigns staff to audit.</li><li>○ City Auditor and audit team hold a project initiation and expectation meeting.</li><li>○ Job start letter sent to agency or department director.</li><li>○ If requested audit, Audit staff research audit topic-program, policy, or agency.</li><li>○ Conduct entrance conference with agency.</li></ul>





### **Preliminary Survey & Risk Assessment**

- Obtain and review relevant background documents and information.
- Define audit scope.
- Assess risk: understand program and significance; identify major threats; consider management controls to mitigate threats; and complete vulnerability assessment through rating internal controls and assessing threat levels.
- Identify potential sources and reliability of evidence.
- Identify criteria.
- Determine if external resources or experts are needed to conduct the engagement.
- Assess staffing and resources for the audit.



### **Audit Program Development**

- In-charge drafts field work audit program to include the audit plan and the workplan that details specific tasks for meeting the audit objectives.
- City Auditor approves the Audit Program.



### **Fieldwork**

- Conduct Fieldwork.
- Draft Audit Finding Document.
- Draft Audit Report.

## **PROJECT START**

### **Project assignment**

The City Auditor assigns staff to the audit based on input from the Audit Manager. Staff assignments will be based on auditor availability, experience, knowledge, and familiarity with the audit subject. For each audit, a Staff Assignment Form will be completed to document assignment approval, and staff competence. After staff are assigned to an audit, an initial team meeting is held with the City Auditor to share information, discuss strategy (such as which officials to contact), and learn of the auditor's expectations. The meeting helps to identify project issues, their significance to potential users of the audit report, the contribution the office can make, and the availability of data and resources, and whether a consultant is required for the project. The in-charge summarizes the meeting in a memo, obtains approval from the supervisor, and forwards a copy to the City Auditor. All relevant documents and forms are found in the electronic workpaper system MKInsight. The audit program identifies the required audit steps that must be performed.

### **Job Start letter**

The in-charge auditor will draft the audit job start letter for the City Auditor's signature to inform the department of the audit request, list required documentation, indicate that the City Auditor assumes responsibility for the engagement, and request or confirm a meeting with the agency head. See example of job start letter.

### **Audit Request Research**

For requested audits, the in-charge auditor must research the concerns behind the request. This may involve contacting the requesting party or office. Any meetings with the requesting party or office must involve the City Auditor.

### **Entrance conference**

Once the job start letter has been sent to the auditee, the in-charge auditor will schedule an entrance conference to meet with the agency head and key staff. At the entrance conference, the City Auditor will: (1) introduce the members of the audit team, including the Audit Supervisor (2) explain the audit objective, scope, methodology, general process and timetable for the audit work, including the agency's deadlines to respond to preliminary findings and to the preliminary draft; (3) gain an understanding of the protocol to be followed in contacting staff and requesting information; (4) if applicable, request work space and network connectivity for the audit (5) solicit the views and concerns of the agency head on the project, and (6) since government auditing standards requires that we gain an understanding and assess the significance and impact of any ongoing investigations and legal proceedings within the context of the audit objectives, during the entrance conference meeting, the auditees will be asked if there are any ongoing investigations

or legal proceedings we need to consider during the planning of the audit. Audit staff must document the meeting results, including a list of meeting attendees.

If the audit is terminated before it is completed and no audit report is issued, auditors should document the results of their work to date and why it was terminated. If an engagement is terminated, the City Auditor will issue a memo to the Audit Committee to communicate that the engagement is terminated prior to completion and it will state the work completed as of the date of the memo and why the engagement was terminated.

## **PRELIMINARY SURVEY—Audit Planning and Risk Assessment**

### **Obtain and Review Relevant Background Information**

Once an entrance conference has been held, the in-charge auditor obtains and reviews relevant information related to the audit request. This may include obtaining information regarding the auditee's mission, goals and objectives, organizational structure, policies and procedures, processes, resources, outputs, and outcomes. The auditor's goal is to understand the program to be audited and to finalize the audit objectives. To accomplish these tasks, auditors should undertake a preliminary audit program to do the following:

- Review any resolution, committee and Independent Budget Analyst reports, testimony, and other pertinent documents, such as committee hearing notes and reports relating to the audit subject;
- Review the City Charter, ordinances, contracts, grant agreements, program memoranda, annual reports, recent budget requests, testimony, internal reports, policy and procedure manuals, and organizational charts relating to the audit subject;
- Review relevant literature, including identifying criteria and related audits conducted by other local government auditors;
- Interview agency staff;
- Review agency files and key memorandums and reports related to the audit;
- Observe and document agency activities related to the audit;
- Review the results of previous audits and attestation engagements that directly relate to the current audit objectives.

Preliminary information about agency operations is gathered expediently and should be relevant to the audit topic. The key objective is to understand completely and competently the key issues of the program or entity being audited. After obtaining and reviewing the relevant background information has been, the auditor should write an **Audit Planning Memorandum** that summarizes key audit topic information and potential audit scope. It should help define the audit scope by establishing key audit questions to answer, identifying potential sources of evidence. This process is intended to keep the planning process to a minimum by focusing on what we are going to do, why we are going to do it, and how we are going to do it. If done properly, the scoping work will help the team focus its risk assessment work around the tentative scope, methodology and objectives of the audit. A meeting will be held to review and approve the **Audit Planning Memorandum**. The memorandum is reviewed by the Audit Manager and City Auditor.

### **Risk Assessment**

Once the scoping statement is completed, auditors need to identify and assess the risks associated with the agency, program, or policy under audit. The purpose of risk assessment is to identify and rate the threats facing the program or agency under audit, identify and assess the controls or procedures in place to prevent or mitigate such threats, and perform a vulnerability assessment of the audit risks and controls.

#### Purpose

- To identify the threats facing the program or contract under audit; identify the controls or procedures the City has in place to prevent, eliminate or minimize the threats.
- To identify the threats facing the program or contract under audit; identify the controls or procedures the City has in place to prevent, eliminate or minimize the threats. To determine the probability that noncompliance and abuse, which is individually or in the aggregate material, could occur and not be prevented or detected in a timely manner by the internal controls in place; assess the internal control structure in accordance with SAS 55.

To develop audit procedures to see if the controls or procedures the City has in place to prevent, eliminate, or minimize identified threats are working; determine if additional audit procedures are necessary to document threats actually occurring.

The rationale for conducting a risk assessment is that auditors can limit testing and focus on those areas most vulnerable to noncompliance and abuse. This produces a more cost-effective and timely audit. In conducting a risk assessment, the auditor:

- Identifies the threats associated with the area or activity under review;
- Determines the inherent risk associated with the identified threats; and
- Assesses whether the existing internal controls will prevent, detect, or correct instances when threats actually occur.

The extent of audit testing is directly related to an assessment of the activity's degree of vulnerability. The higher the vulnerability, the more extensive the audit testing needs to be and vice versa. Thus, even though an activity may have a high degree of inherent risk, a strong system of internal controls can reduce the entity's exposure to a low or moderate level. Accordingly, the need to conduct detailed audit tests could be reduced to an appropriate level

The risk assessment work should be documented in the audit working papers. This assessment should serve as the foundation for the developing the detailed audit steps and tests to be performed in the Audit Program. The risk assessment should be documented in a completed risk matrix and relevant to the audit objectives. Auditors must perform the following steps.

### **Risk Assessment Audit Steps**

1. Based on information gathered in the Audit Planning Memorandum, prepare a tentative list of threats for the major audit objectives. If computer processed data is an important or integral part of the audit and the reliability of the data is crucial to accomplishing audit objectives, the auditor should include threats to computer processed data in this list. Auditors must consider the following factors.
  - Assess the risk that abuse or illegal acts could occur and materially impact the auditee's compliance with laws, rules, or regulations or have a material effect on the auditee's operations.

Consider whether the auditee has controls that are effective in preventing or detecting illegal acts. See Section 10 for specific guidance.

- If computer systems or computer-processed data are included as threats or as controls above, consult with the project supervisor to determine the need for EDP audit assistance.
  - Identify material and significant findings and recommendations from previous reports issued by the office on the agency or program that may require follow-up in the current project. An auditee's failure to rectify outstanding issues and implement previous recommendations are considered threats.
2. Meet with audit management to review the list of potential threats and include any additional threats to the list. Auditors may send this information to the auditee prior to the meeting. At the same meeting, auditors must document management's internal controls (actual or potential controls) to mitigate the identified threats.
  3. Create a risk matrix with the identified threats and corresponding identified controls. Use the rating guides to assess each threat's inherent risk, rate each internal control, and assess the vulnerability of each internal control given the threat risk and internal control rating. These guides are shown on the following pages and are used to determine the extent of testing needed to assess the identified internal controls. An example of an excerpt of a completed risk matrix and vulnerability assessment is shown after the rating guides. The Audit Manager reviews the final risk matrix and the City Auditor approves the document. A meeting may be held to discuss the matrix and assessment.

### Threat Inherent Risk and Internal Control Rating Guide

The threat's inherent risk is	if	The internal control is	If
<b>HIGH</b>	<ul style="list-style-type: none"> <li>Noncompliance or abuse may result in significant losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies).</li> <li>Noncompliance or abuse will likely expose the City to adverse criticism in the eyes of its citizens.</li> <li>Incentives of noncompliance or abuse outweigh the potential penalties.</li> </ul>	<b>WEAK</b>	<ul style="list-style-type: none"> <li>Management and/or staff demonstrate an uncooperative or uncaring attitude with regard to compliance, recordkeeping, or external review.</li> <li>Prior audits or the preliminary survey has disclosed significant problems.</li> <li>The Risk Matrix reveals that adequate and/or sufficient internal control techniques are not in place.</li> <li>Documentation of procedures is lacking or of little use.</li> </ul>
<b>MODERATE</b>	<ul style="list-style-type: none"> <li>Noncompliance or abuse may result in moderate losses to the City of marketable assets (e.g., cash, securities, equipment, tools, supplies).</li> <li>Noncompliance or abuse will result in inefficient operations or substandard service to the citizens.</li> <li>Incentives of noncompliance or abuse are approximately equal to the potential penalties.</li> </ul>	<b>ADEQUATE</b>	<ul style="list-style-type: none"> <li>Management and staff demonstrate a cooperative attitude with regard to compliance, recordkeeping, and external review.</li> <li>Prior audits or the preliminary survey has disclosed some problems but management has implemented remedial action and has satisfactorily responded to audit recommendations.</li> <li>The Risk Matrix reveals that adequate and/or sufficient internal control techniques are in place.</li> <li>Although deficient or outdated, documentation of procedures is still useful or can easily be updated.</li> </ul>
<b>LOW</b>	<ul style="list-style-type: none"> <li>Noncompliance or abuse may result in low losses to the City of marketable assets (e.g., cash,</li> </ul>	<b>STRONG</b>	<ul style="list-style-type: none"> <li>Management and staff demonstrate a constructive attitude, including an eagerness to anticipate and forestall problems.</li> </ul>

	<p>securities, equipment, tools, supplies).</p> <ul style="list-style-type: none"> <li>• Noncompliance or abuse will result in a disregard of an administrative procedure or authoritative standard.</li> <li>• The potential penalties outweigh the incentives of noncompliance or abuse</li> </ul>		<ul style="list-style-type: none"> <li>• Prior audits and the preliminary survey have not disclosed any problems.</li> <li>• The Risk Matrix reveals that numerous and effective internal control techniques are in place.</li> <li>• Procedures are well documented.</li> </ul>
--	--	--	--

### Vulnerability Assessment and Testing Extent

Inherent Risk	Internal Controls	Vulnerability and Testing Extent
High	Weak Adequate Strong	High Moderate to High Low to moderate
Moderate	Weak Adequate Strong	Moderate to High Moderate Low
Low	Weak Adequate Strong	Low to moderate Low Very low



### Example of Risk Matrix and Vulnerability Assessment

	Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
<b>T-1</b>	<b>Procurement card holders make purchases that are not permitted by law, regulation, or policy</b>	<b>Moderate</b>		
C-1	City maintains and enforces policy on monitoring credit card usage		Weak	Moderate to high
C-2	Bank sends monthly summary statement to Approving Official listing all cardholders and transactions.		Adequate	Moderate
C-3	Approving Officials are required to review all statements and approve all purchases within 10 days.		Weak	Moderate to high
C-4	Accounting staff review approved statements for approving official signature, travel-related expenses, technology purchases, and unusual purchases.		Adequate	Moderate

## **AUDIT PROGRAM DEVELOPMENT**

### **Field Work Audit Program**

Based on the results of the scope review, preliminary survey, and risk assessment, the auditor develops an audit program that consists of the audit objectives, scope, methodology, and related concerns. The audit program includes audit steps, tasks, and procedures to test if the identified controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. The Audit Manager reviews the audit program and the City Auditor approves the document.

Auditors should follow the Audit Procedure Guidelines listed below in developing the specific audit steps listed in the audit program. Specifically, based on the risk and vulnerability assessment, the in-charge auditor will write the audit program to determine if the controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working as intended. As the audit progress, the audit staff should document the key decisions about the audit objectives, scope, and methodology.

The Audit Program guides audit staff through the steps necessary to complete audit fieldwork. In fieldwork, auditors obtain and analyze program data and information to determine if the identified controls are working as intended. This is accomplished by completing the audit steps identified in the Audit Program. Audit steps may include interviewing officials, reviewing documents (e.g. internal memoranda, correspondence, reports, minutes, contracts), and gathering statistical data through database searches, analysis of secondary data sources, and surveys. The audit field work objective is to develop audit findings. The Audit Program template found in MKInsight will be used to document the planned audit steps.

### ***Variations of audit programs***

In certain instances, the need may arise to make modifications to the audit program to address expanded audit scope or to address new audit issues. The City Auditor will approve any significant departures from the Audit Program. Minor changes such as extensions of internal deadlines do not require formal approval by the City Auditor. If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes. A revised scoping memo will be issued to address the objective modification or change.

Auditors should extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred. Auditors should document in the working papers and audit program when audit procedures are extended. If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. In fraud-related situations, our policy will be not to interfere with legal proceedings or investigations.

## Developing Preliminary Findings

Audit findings must contain condition, criteria, cause, effect, and recommendations. However, the elements needed for a finding depend entirely on the objectives of the audit. A finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements. For each audit finding, a Finding Development Worksheet template should be completed in MKInsight as shown below.

<b>Condition</b>	What is? The situation that exists and has been documented during the audit.
<b>Criteria</b>	What should be! The standards used to determine whether a program meets or exceeds expectations. Criteria provide a context for understanding the results of the audit. The audit plan, where possible, should state the criteria to be used. Criteria should be reasonable, attainable, and relevant to the matters being audited.
<b>Effect</b>	The difference between the condition and criteria. What is the impact (actual or potential) in services, dollars, or people resulting from the stated condition. The harm that could occur from the condition.
<b>Cause</b>	Who or how the problem or non-compliance with the criteria occurred.
<b>Recommendations</b>	Specific actions that will rectify the cause of the condition.

Based on assessment of the information gained, auditors should determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. Throughout the course of the audit, the in-charge auditor, Audit Manager, and City Auditor should discuss proposed findings. When all of the elements of a finding have been met and audit work completed, the staff should present to the Supervisor a report outline including the above elements. The City Auditor will review and comment on the outline, make suggestions and then approve the development of a report draft. The auditor should follow the guidance provided in the attachment to Section 6 for writing the report. When auditors conclude that sufficient, appropriate evidence is not available, auditors should evaluate whether internal control or other program weaknesses are the cause.

Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Sufficiency refers to the amount of evidence gathered and presented. Appropriateness refers to the quality of evidence including its relevance to the audit objectives, reliability and validity. Auditors should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Auditors should document their assessment. The specific steps to assess evidence will depend on the nature of the evidence, how it is used in the audit and the audit objectives. When auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, auditors should apply additional procedures to strengthen the evidence,

redefine the audit objectives or scope to eliminate the need to use the evidence, or revise the findings and conclusions such that supporting evidence is sufficient and appropriate.

Audit Manual Section 5 covers the Office of the City Auditor's policy regarding audit evidence. Section 5 addresses elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.



## THE CITY OF SAN DIEGO

### Example of Job Start Letter

November xx, 2020

**Via Email**

Name, Department Director  
City of San Diego  
Address  
San Diego, CA 92xxx

Dear **Department Director**:

In accordance with the Office of the City Auditor's approved fiscal year 2021 Audit Work Plan, we are initiating a performance audit of the **Name of Audit**. In order to commence the audit, we would like to schedule an entrance meeting to introduce the audit team and to discuss the overall audit process, audit objective, time frame, and initial data needs. We will contact you in the near future to schedule this meeting.

The objective of this audit is to review the financial condition of the City of San Diego by analyzing trends in the City's financial data over a 10-year period. Financial metrics will be analyzed in four areas: financial position, revenues, debt, and capital assets. In addition, we will include an evaluation of contingent liabilities.

We plan to conduct this audit in accordance with generally accepted government auditing standards. As the City Auditor, I am responsible for supervising the engagement and signing the report. Before we issue any report resulting from this audit, you will have the opportunity to review the report and provide written comments for inclusion in the final version. You will also have the opportunity to include a memorandum of program accomplishments in the final report.

Also, government auditing standards require that we gain and understanding and assess the significance and impact of ongoing investigations and legal proceedings within the context of the audit objectives. During the entrance conference meeting, please inform us of any ongoing investigations or legal proceedings related to this audit topic that we should be aware of.

If you have questions or would like additional information, please do not hesitate to contact me at (619) 533-3007, or name of Principal, Principal Performance Auditor, at (619) 533- 3xxx. Your cooperation is greatly appreciated.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Andy Hanau', with a stylized, cursive script.

Andy Hanau, CIA, CFE  
City Auditor

cc: Eric Dargan, Chief Operating Officer  
Roland Charvel, Director and City Comptroller, Department of Finance  
Charles Modica, Independent Budget Analyst  
David Karlin, Deputy City Attorney

**CITY OF SAN DIEGO**  
**OFFICE OF THE CITY AUDITOR**  
**AUDIT PROCEDURES GUIDELINES**

There are many types of audit procedures which can be used to test transactions or processes. The audit objective determines the type of procedure to be used. The auditor must judge the evidence obtained through the audit procedures to make conclusions for each audit objective. The evaluation process requires professional judgment in determining the adequacy, efficiency, economy and effectiveness of what has been audited. Care must be taken in selecting the correct procedure to achieve the audit objective. The audit risks include: selecting an improper audit procedure, executing the procedure incorrectly, and incorrect evaluations.

The following general types of audit procedures are discussed below: **Verification, Observation, Inquiry, and Analysis.**

**A. Verification**

Verification is the confirmation of things such as: Assets; Records; Statements; Documents; Compliance with laws and regulations; effectiveness of internal controls; transactions; and processes. The purpose of verification is to establish the accuracy, reliability or validity of something. Following is a discussion of types of verification techniques:

1. **Count:** An auditor will use this technique to verify the accounting records of a physical asset by physically counting the assets.
2. **Compare:** An auditor will identify similar and/or different characteristics of information from two or more sources. Types of comparison include: (a) Comparison with prescribed standards; (b) Comparison of current operations with past or similar operations; (c) Comparison with written policies and procedures; (d) Comparison with laws or regulations; and (e) Comparison with other reasonable criteria.

Specific examples are:

- To compare a law requiring that a percentage of taxes will be used for a particular program with the accounting records showing the amount of taxes and how much was spent on the program.
  - To compare the documentation of a transaction with the procedure for the transaction.
3. **Examine:** To look something over carefully, such as a document, especially for the purpose of detecting flaws or irregularities. For example, an auditor may examine a document to verify that it has been executed by authorized persons.

4. **Inspect:** To look something over carefully, such as a physical asset, especially for the purpose of detecting flaws or irregularities. For example, an auditor may inspect inventory to verify quality.
5. **Foot:** To recompute the mathematical result of addition or subtraction of columns or rows of numbers in documents or records.
6. **Recompute:** To check mathematical computations performed by others.
7. **Reconcile:** The process of matching two independent sets of records and to show mathematically, with supporting documentation, the difference between the two records. For example, the beginning and ending balances in an account could be reconciled to document the transactions that account for the changes between the beginning and the end.
8. **Confirm:** To obtain information from an independent source (third party) for the purpose of verifying information.
9. **Vouch:** To verify recorded transactions or amounts by examining supporting documents. In vouching, the direction of testing is from the recorded item to supporting documentation. The purpose for vouching is to verify that recorded transactions represent actual transactions.
10. **Trace:** Tracing procedures begin with the original documents and are followed through the processing cycles into summary accounting records. In tracing, the direction of testing is from supporting documentation to the recorded item. The purpose of tracing is to verify that all actual transactions have been recorded.

## B. Observation

Observation is auditors seeing with a purpose, making mental notes and using judgment to measure what they see against standards in their minds. Experienced auditors may be better able to observe deviations from the norm. Observed deviations usually require confirmation through analysis or corroboration.

Types of deficient conditions which can be observed include:

1. Idle personnel, equipment, or facilities;
2. Security violations;
3. Dangerous conditions or safety violations; and
4. Backlogs.



### **C. Inquiry**

Auditors perform interviews with the auditee and related parties throughout the audit. Good oral communication skills on the part of the auditor assist in getting accurate and meaningful information from the interviewee. Auditors should use open-ended questions when possible. Depending on the type of information received in an interview, it may need to be confirmed through documentation.

### **D. Analysis**

Analysis is the separation of an entity for the purpose of studying the individual parts of data. The elements of the entity can be isolated, identified, quantified, and measured. The quantification may require the auditor to perform detailed calculations and computations. Furthermore, the auditor can document ratios and trends, make comparisons and isolate unusual transactions or conditions.



THE CITY OF SAN DIEGO

Office of the City Auditor  
Staff Assignment Form

Assignment Title:

Audit Type: Performance ☐ Financial ☐ Other ☐

Workplan: FY

Source: Citywide Risk Assessment / Audit Plan ☐

Required ☐

Requested by ☐  
(Attach documentation of Audit Committee approval)

Considerations: Will this assignment result in our auditing our own work? Yes ☐ No ☐

Has the City Auditor's Office:

a. performed any management functions or made any management decisions relative to the auditee? Yes ☐ No ☐

b. provided non-audit services that are significant or material to the subject matter of the audit? Yes ☐ No ☐

Audit Supervisor:

Audit Staff:

Estimated  
Completion Date:

Estimated Hours:

Special instructions:

I have reviewed the assigned staff résumés, and current training records. The assigned staff collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. Further, I have reviewed each assigned staff person's signed Annual Independence Statement and found that no known impairments exist. Lastly, I assume responsibility for the overall quality on the engagement. This includes responsibility for ensuring the appropriate procedures are being performed throughout the audit and open communication is ongoing with assigned staff, the auditee, and audit management.

Approved:

Andy Hanau  
City Auditor

Date:



The City of San Diego

Office of the City Auditor  
Staff Assignment Form  
Independent Reviewer(s)

Assignment Title:

Audit Type: Performance ☐ Financial ☐ Other ☐

Workplan: FY

Audit Independent Reviewer 1:

Audit Independent Reviewer 2:

Audit Independent Reviewer 3:

Audit Independent Reviewer 4:

Special instructions:

I have reviewed the assigned staff résumés, and current training records. The assigned staff collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. Further, I have reviewed each assigned staff person's signed Annual Independence Statement and found that no known impairments exist. Lastly, I assume responsibility for the overall quality on the engagement. This includes responsibility for ensuring the appropriate procedures are being performed throughout the audit and open communication is ongoing with assigned staff, the auditee, and audit management.

Approved:



Date:



Andy Hanau  
City Auditor

## Section 5

### Elements Critical To Successful Fieldwork

Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions as required by GAGAS. Auditors must evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. In order to document compliance with GAGAS, a Review of Evidence form will be completed for each audit assignment by the Audit Manager. See the Review of Evidence form at the end of Section 5. Section 5 also covers elements critical to a successful fieldwork process including types and tests of evidence, conducting interviews, audit sampling, preparation of audit working papers, securing and disclosing working papers, testing for compliance, and developing preliminary findings.

#### Types and Tests of Evidence

Audit evidence may be physical, documentary, testimonial, or analytical.

- **Physical evidence** is obtained through direct inspection or observation of people, property, or events. It can be documented by photographs, charts, maps, physical samples, memoranda summarizing the matters inspected or observed, and other sources. The value of physical evidence is often limited by the number of observations made, the biases of the observer, and the impact of observation on the subjects.
- **Documentary evidence** is used heavily in performance audits and other projects. It consists of “created information” such as emails, letters, contracts, accounting records, invoices, correspondence, memoranda, and management information on performance. It is usually more reliable, more objective, easier to assemble, and easier to document than other kinds of evidence.
- **Testimonial evidence** is obtained through responses to inquiries, surveys, or interviews. Testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. Testimonial representations may be included in report, but must be attributed. Whenever possible, important information from interviews is corroborated with additional evidence.
- **Analytical evidence** is compiled by the staff from other types of evidence. It includes computations, comparisons, rational arguments, interpretations, and the separation of information into components. The quality of analytical evidence depends on the accuracy and reliability of the data used, the level of detail, and the logic applied in the analysis.

## Tests of Evidence

Evidence used for projects must meet tests of sufficiency, relevance, and competence.

1. **Sufficiency** means that there is enough evidence to support the findings, conclusions, and recommendations of a report and persuade a reasonable person of their validity. When appropriate, statistical methods may be used to establish sufficiency. The office working paper standards require working papers to be clear and understandable without supplementary oral explanations.
2. **Competence** means evidence is valid, reliable, and consistent with fact. In assessing the competency of evidence, auditors should consider whether the evidence is accurate, authoritative, timely, and authentic. For assessing the competence of evidence, some evidence is more competent than others:
  - a. Evidence obtained from a credible third party is more competent than that secured from the auditee.
  - b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.
  - c. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than that obtained indirectly.
  - d. Evidence from original documents is more competent evidence than from copies.
  - e. Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions.
  - f. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.
3. **Relevance** means that the information has a logical and sensible relationship to the issue being addressed. Information that is not relevant is not included in working papers as evidence. Audit staff should ensure that working papers and related information accumulated while developing a specific finding have direct bearing on the finding and related recommendations. However, staff should avoid indiscriminately accumulating papers and documents which may be related to the subject but have no potential bearing on the finding.

## Written Representation Concerning Testimonial Evidence

As indicated previously, testimonial evidence is usually the weakest form of evidence and generally not used to support key audit findings. In certain situations, audit staff need to obtain written confirmation or written

representation concerning key information provided through interviews—officials providing key explanations as to why certain actions were or were not performed. Written representations ordinarily confirm oral representations given to auditors, indicate and document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding concerning the matters that are the subject of the representations. To obtain written representation or confirmations, auditors should transmit a written interview summary via email to the appropriate official. The email should indicate that the official needs to review the attached document summarizing your meeting for accuracy and completeness. Indicate that the official has five days to review the summary and provide comments. If no comments are provided by the due date, indicate the official is acknowledging and agreeing to the accuracy and completeness of the written summary. Use the email time/date feature to document the email. Retain all related documents as work papers.

### **Source of data determines the approach for determining sufficiency, competence, and relevance**

- a. Data gathered by audit staff include their own observations and measurements. Among the methods for gathering this type of data are questionnaires, structured interviews, direct observations, and computations.
- b. Data gathered by the auditee can be used by audit staff as part of their evidence. Audit staff may determine the validity and reliability of the data by direct tests of the data. The amount of such tests of the data can be reduced if a test of the effectiveness of the entity's controls over the validity and reliability of the data support the conclusion that the controls are effective. The nature and extent of testing of the data will depend on the significance of the data to support audit findings. Audit staff should document tests done regarding the reliability of the data obtained from the auditee.
- c. When the tests of data disclose errors in the data, or when audit staff are unable to obtain sufficient, competent, and relevant evidence about the validity and reliability of the data, audit staff may find it necessary to (1) seek evidence from other sources, (2) redefine the audit's objectives to eliminate the need to use the data, or (3) use the data, but clearly indicate the data's limitations and refrain from making unwarranted conclusions or recommendations.
- d. Evidence may also include data gathered by third parties. In some cases, these data may have been audited by others and in other cases, it may not be practical to obtain evidence of the data's validity and reliability. The use of un-audited third-party data in an audit report will depend on the data's significance to the audit findings.

## **Conducting Interviews**

Before conducting an interview, the in-charge auditor and the staff auditor should prepare and review the interview questions. The following guidelines apply to the development of interview questions:

- Keep questions short, address only one topic at a time, be precise, and use language that is easily understood.
- Frame questions in non-judgmental terms. Similarly, avoid leading questions.
- Avoid asking questions for which the answer is obvious or can readily be found in available reference sources.
- Frame questions to require a narrative response, rather than a “yes” or “no” answer.
- Be mindful of the length of the questionnaire.
- Organize the questions in a logical sequence.
- Save controversial questions for the end.

Interview questions may be reviewed with the audit supervisor to ensure that these guidelines and the audit objectives are addressed. This should especially be done for such key interviews as the entrance conference. An appointment should be made to conduct the interview. By calling for an appointment, the staff auditor can introduce him or herself, clarify who will be participating in the interview, explain why the interview is requested, and state what will be covered. If possible, the interview should be held in the respondent's office, meeting room, or in a neutral site. It is also helpful to provide the interviewee with a copy of the questions to assist in gathering materials necessary for the response. However, agency requests for copies of interview questions will not be granted, since interview questions with responses noted are confidential working papers during the conduct of the audit. The protocol for arranging interviews should be decided in the entrance conference or shortly thereafter.

## **Conducting the interview**

Sensitive interviews or interviews on detailed and complex subjects are best conducted in pairs. The in-charge auditor is primarily responsible for developing and asking the questions and writing up the interview notes afterward. The role of the other staff auditor is to listen carefully, help to record the responses, and following up on inconsistencies, ambiguities, and promising new avenues of exploration as they arise. The interjections of the other person provide welcome relief to the interview leader, who can use the break to refocus on the progress of the interview and upcoming question.

The audit team members should arrive for the interview on time. The interviewee should be thanked for taking time for the appointment. The in-charge auditor begins by introducing the members of the audit team, explaining the objectives of the audit, explaining the purpose of the audit interview, and assuring the interviewee that the results of the interview will be kept confidential. The elements of the findings planned for the audit may also be explained.

If the interviewee asks that particular remarks be kept off the record, the interviewer(s) should stop taking notes; however, keep in mind that the information then cannot be used as evidence. When asking the prepared questions, demonstrate your interest in the interviewee's statements by listening actively. It is helpful to occasionally restate or summarize your understanding of the interviewee's remarks to confirm your understanding. The secondary interviewer should ensure that the questions are fully answered. This may require several restatements of the question or of the given response. Keep note taking brief; you can elaborate on the notes after the meeting.

At the close of the interview, be sure to thank the interviewee and ask if follow up questions can be made by phone. Returning back to the office, it is useful for the in-charge auditor and team members to evaluate how well the interview went, whether all of the questions were asked and adequately responded to, and whether any new leads or issues were raised. The in-charge auditor should ensure that new leads or issues are documented in the interview notes. Interview notes should be drafted as soon as possible after the meeting while one's memory is still fresh. The draft interview notes can be reviewed for accuracy and completeness with the other member of the interview team. Since statements in an interview usually require corroboration, the in-charge auditor should also conduct appropriate research to obtain such information as soon as possible.

## **Documenting Interviews**

Auditors prepare a record of the interview (including phone) as soon after the interview as possible. The handwritten interview notes may be attached to the record if the supervisor requests and become part of the permanent working papers. Each interview record contains the following information:

- Date and place of interview.
- Time interview began and ended.
- Name, position, organization, and telephone number of interviewee, and others present at the interview.
- Name(s) of interviewer(s).
- Purpose of interview.
- In-charge's and team member's judgments, comments, and working paper cross-references where appropriate.
- When warranted, a note that the interview was orally confirmed

## **Audit Sampling**

In general, there are two types of samples: probability samples, and nonprobability samples.

A *probability sample* is selected in such a way that each item or person in the population has a known chance of being included in the sample. Thus, *every* item or person has a chance of being selected. There are



various types of probability samples. Each involves some method of selecting an item or person on a random basis. These methods are sometimes collectively referred to as *random samples*. For ease of reference and consistency, the remaining section of this manual will use the term “random sample” for any type of probability sample.

In a *nonprobability sample* not all items or persons have an equal chance of being selected. The person or item in the sample is selected based on the judgment or convenience of the person conducting the audit. Thus, these types of samples are referred to as *judgment samples* or *convenience samples*. The results of these types of samples may be biased, meaning results may not be representative of the population. All types of nonprobability samples will be called judgment samples in the remaining section of this manual.

To determine whether to use a random or a judgment sample, the in-charge needs to know how information from the sample will be used. If the audit team member needs to make a statement about the entire population of interest, then a random sample is definitely needed. If no statement or description of the population is needed, then a random or a judgment sample can be used. The in-charge should understand that the results of a judgment sample describe the sample only. Such results cannot be used to make a statement about the population. Auditing standards for performance audits also require adequate professional competency, statistical sampling skills as necessary, due professional care, and a clear explanation of the evidence gathering and analysis techniques used in the audit. Information on statistical sampling and analysis techniques is disclosed in the scope and methodology section of the audit report.

Properly constructed random samples enable the in-charge to review considerably less than the entire population of interest while allowing for a projection of sample results with given degrees of confidence to the population. In addition:

- Sample results are objective and defensible;
- An estimate of the sampling error can be determined; and
- The results can be replicated by another in-charge.

The reliability of the results can be computed and expressed in numerical terms.

## Types of random samples

There are several types of random samples. Use of a particular type of random sample may depend on the audit purpose, cost considerations, access to data, population size and complexity, etc. The following are four types of random samples:

<b>Simple random sample</b>	This is the most common type of random sample but may be more costly or less efficient than other random sample methods. All items in the population have the same chance of being included in the sample.
-----------------------------	--

<b>Systematic random sample</b>	Items or individuals in the population are arranged in some way, such as alphabetically, by date, or by some other method. A random starting point is selected, and then every <i>k</i> th member of the population is selected for the sample. This method ensures that there is an even spread of the sample across the entire population, if there is any pattern in the population.
<b>Stratified random sample</b>	The population is divided into subgroups called strata and a sample is selected from each subgroup. Either a proportional or a non-proportional sample can be selected. A proportional sample procedure requires that the number of items chosen from each stratum be in the same proportion as in the population. In a non-proportional stratified sample, the number of items chosen may be disproportionate to the population. Stratified random samples ensure that items from each subgroup are included in the sample.
<b>Cluster samples</b>	This involves dividing the population into clusters or groups, selecting a sample of those groups, and then selecting a sample of items or persons from the selected sample groups. Sampling serves several purposes in auditing. The most common purpose is to <i>provide an estimate</i> of the population. If the in-charge wishes to count the frequency of an event or an item, the in-charge is engaged in <i>attributes sampling</i> . Examples include counting errors versus non-errors in a transaction, improperly completed requisitions, and the number of clients who have received health care within the past month. With attributes sampling, the in-charge answers questions about “how many.”

Sometimes the audit team member wishes to estimate the average and/or total value of items in the population. In these cases, the in-charge may measure the dollar value of inventory, the average length of time to fill out a requisition, or the number of overtime hours in a given time period. When conducting such measurements the in-charge is engaged in *variables sampling*.

Judgment samples can be used when random samples are not necessary. For example, an in-charge may not need to mathematically project results to the population, but may simply be interested in evaluating a process or determining if all phases of the process are operational. A few items selected on a judgmental basis may be sufficient to provide feedback on whether system activities are functioning. Judgment samples may also be used to provide an indication of the need to proceed with a random sample in fieldwork.

Sampling procedures are part of the audit working papers. Regardless of the type of sample selected, in-charge should document in the working papers, the procedures used to determine the sample size, the type of sample method used, how the sample was chosen, sample results, pertinent characteristics, such as the universe of items cannot be determined, obtain from auditee assessment of potential bias or limitations pertaining to sampling, if any, and, if appropriate, how the results project to the population of interest.

## Audit Working Papers

As used in this manual, the term **working papers** refers to all of the following:

- Each document or piece of evidence.
- The summaries and analyses of these documents.
- The body of compiled evidence.

The working papers documented in MKInsight will verify that all planned steps in the project have been carried out. Working papers should:

- Contain adequate indexing and cross-referencing, schedules, and summaries.
- Be dated and initialed by the preparer.
- Be reviewed and initialed by the in-charge and supervisor or approved in MKInsight with the date of review recorded.
- Be complete and accurate to provide proper support for findings, judgments, and conclusions, and to demonstrate the nature and scope of work conducted.
- Be understandable without oral explanations, complete and yet concise. Users should be able to readily determine their purpose, data sources, the nature and scope of the work conducted, and the preparer's conclusions.
- Be as legible and neat as practicable, to maintain their worth as evidence.
- Be restricted to matters that are significant and relevant to the objectives of the assignment.

The audit team members will record working papers in MKInsight. See Section 12 – Guidance for Recording and Reviewing Audit Working Papers in MKInsight. This section provides guidance on how to utilize the electronic workpaper system – MKInsight through the various steps of the audit to ensure all key audit steps are completed, recorded and approved. The supervisor verifies that the tasks have been done by initialing and dating the working papers or electronically signing off in MKInsight. For any planned task that is not carried out, the in-charge can simply note or prepare a working paper to document and explain the reasons for not completing the task, and the supervisor initials the working paper to document approval.

Working papers also substantiate the adequacy of the methodology used in the project. Where sampling is used, for example, the working papers show how the sample was selected, the validity of the information gathered, and the reasonableness of the results.

We also document physical evidence such as photographs. Auditors corroborate the evidence, record the date it was corroborated, and add the information needed to create an audit trail. The in-charge auditor is responsible for ensuring that the working papers and project files are appropriately organized and complete.

Working papers help the in-charge auditor organize materials and prepare report outlines and reports. Working papers can also help the audit supervisor monitor the work progress and ensure that it is accurate and timely, document progress toward achieving audit objectives by showing the work done, data collected, and methodology used, and assist in planning for and carrying out subsequent audit assignments.

Finally, working papers provide evidence of audit quality: that the conclusions and judgments in an audit are based on fact and are reasonably supported by the evidence.

Audit standards stipulate that working papers should contain: (1) the audit's objectives, scope, and methodology, including sampling criteria used; (2) documentation of the work performed to support significant conclusions and judgments; and (3) evidence of supervisory review of the work performed. Working papers should contain evidence that meets the standards of sufficiency, relevance, and competence.

Auditors should document in the working papers departures from GAS requirements and the impact on the audit and auditors' conclusions.

## **Types of Working Papers**

There are two main types of working papers that are produced and maintained during the course of an audit:

1. **Interviews.** Interviews are an important source of data collection for audits. As used in this manual, interviews include both face-to-face meetings, email responses, and telephone conversations where information is obtained for the audit. The in-charge or staff auditor prepares a typed record of the face-to-face and telephone interviews as soon after the interview as possible and includes them in the working papers. Printed copies of email responses can serve as a record of an email interview. See interview section for guidance on preparing interview write-ups.
2. **Documents.** The major portion of working papers consists of documents. Primary source documents (e.g. the copy of the audited agency's actual ledgers, rules, data files; transcripts of meetings) and secondary source documents (e.g. summaries of data files, newspaper articles, annual reports, emails, lengthy source documents).

It is important to develop summaries of work performed and conclusions reached. Summaries serve three primary purposes:

1. To analyze the materials collected and summarize the work done.
2. To synthesize the evidence used to support and build the findings and provide an analysis of the materials reviewed.
3. To facilitate review of evidence supporting the draft report.

How evidence is documented in the working papers varies by the type of work performed. The main point is to describe the records examined so that an experienced auditor would be able to examine the same

records, noting, for example, file or case numbers. Copies of the documents themselves need not always be included. Working papers may include originals or copies of requests for proposals, contracts, subcontracts, amendments, change orders, drawings, blueprints, schematics, books and records, meeting minutes, reports, correspondence, memoranda, spreadsheets, payrolls, time records, time cards, checks, orders, invoices, vouchers, bills, receipts, papers, accounting records, and other materials and information, whether stored on paper or electronically, pertaining to a city program or project. If computer processed data is relied upon, its reliability must be assessed. Textbooks and other lengthy material used for general background (and not specifically quoted or referenced in the report) are not part of the final working papers. Instead, a bibliographic citation or a copy of excerpted material may be used. Care should be taken to balance the need to document the facts and project parameters required by the audit standards, versus the need to expedite such documentation efforts and deliver the audit in a timely fashion.

The production of working papers begins with the background research conducted for the risk assessment and the planning phase, continues through fieldwork, and is organized during the report preparation and project closure phases. The organization of working papers ties together all the work done for a project. Anyone reviewing the working papers should be able to grasp what was done, why it was done, and how the findings and recommendations in the audit report are justified. When consultants are engaged, working papers are also required to be prepared and organized, and access to the working papers must be provided to ensure that the consultants have gathered evidence that is relevant, sufficient, and competent to support the findings and recommendations made.

Auditors should put the following information on the first page of each working paper:

- Initials of preparer.
- Date of preparation.

For lengthy documents (journal articles, book chapters, etc.) that are used for planning or evidence, where appropriate, auditors' judgments, comments, and conclusions that may be helpful in developing findings and recommendations should be placed on the working paper in an appropriate location.

## **Securing Working Papers**

During the course of a project, the in-charge and team members are responsible for the safe custody of working papers. These materials must be protected from theft or destruction and be accessible only to authorized persons. As a general rule, working papers should not be left at the auditees' work site unless they can be secured under lock. As needed, sensitive or confidential materials may be placed in locked cabinets. To safeguard their data, auditors should back up their computer data files to a zip drive or disk as necessary.

## **Disclosing Working Papers**

In order to comply with California State Government Code Section 36525 regarding retention and disclosure of audit working papers, the Office policy will include the following:

1. Retain all audit work papers on site for at least three years.
  - Retain workpapers in City storage for at least five years to comply with City retention policy.
  - Retain financial or Federal grant related workpapers for at least seven years to comply with Federal regulations [Federal Register Volume 69 No.138].
2. Withhold from public disclosure all information related to audits that are in progress and not yet completed.
3. Withhold from public disclosure information that is collected in the course of audit work, but is not used to support a specific finding in the audit.
4. At the City Auditor's discretion, hold confidential any information from anyone cooperating with an audit who has requested, in writing, that we do so.
5. The City Auditor will make appropriate individuals and audit documentation available to other auditors or reviewers upon request, subject to applicable laws and regulations.



THE CITY OF SAN DIEGO

## Office of the City Auditor

Audit:


### Review of Evidence Form

**Purpose:** GAGAS requires auditors to obtain sufficient and appropriate evidence to provide a reasonable basis for their findings and conclusions. In assessing evidence Audit Managers should evaluate whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. During this assessment, Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence.

**Procedure:** In order to document compliance with GAGAS, a Review of Evidence form will be completed for each audit assignment. The Audit Manager in charge of the assignment will review the evidence documented in the workpapers to determine if the evidence taken as a whole, including the use of testimonial evidence and appropriateness of computer-processed information, is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions. Based on the assessment of the evidence, apply additional procedures, redefine the audit objectives, or revise the findings and conclusions, if necessary.

**Conclusion:**

Based on the Audit Manager's review of the evidence documented in the workpapers, the evidence taken as a whole, including the use of testimonial evidence, is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions.

Printed Name / Title	Signature	Date Review Completed
		

# Section 6

## Reporting Audit Results

This section of the Audit Manual documents the report writing process, identifies GAGAS standards related to reporting for performance audits, and documents the Office of the City Auditor policies and procedures and steps related to developing and issuing an audit report. The reporting standards for performance audits relate to the form of the report, the report contents, and report issuance and distribution.

### REPORT PROCESS

The report process begins at the end of field work, after auditors have completed all of the audit steps in the field work audit program and developed preliminary findings.

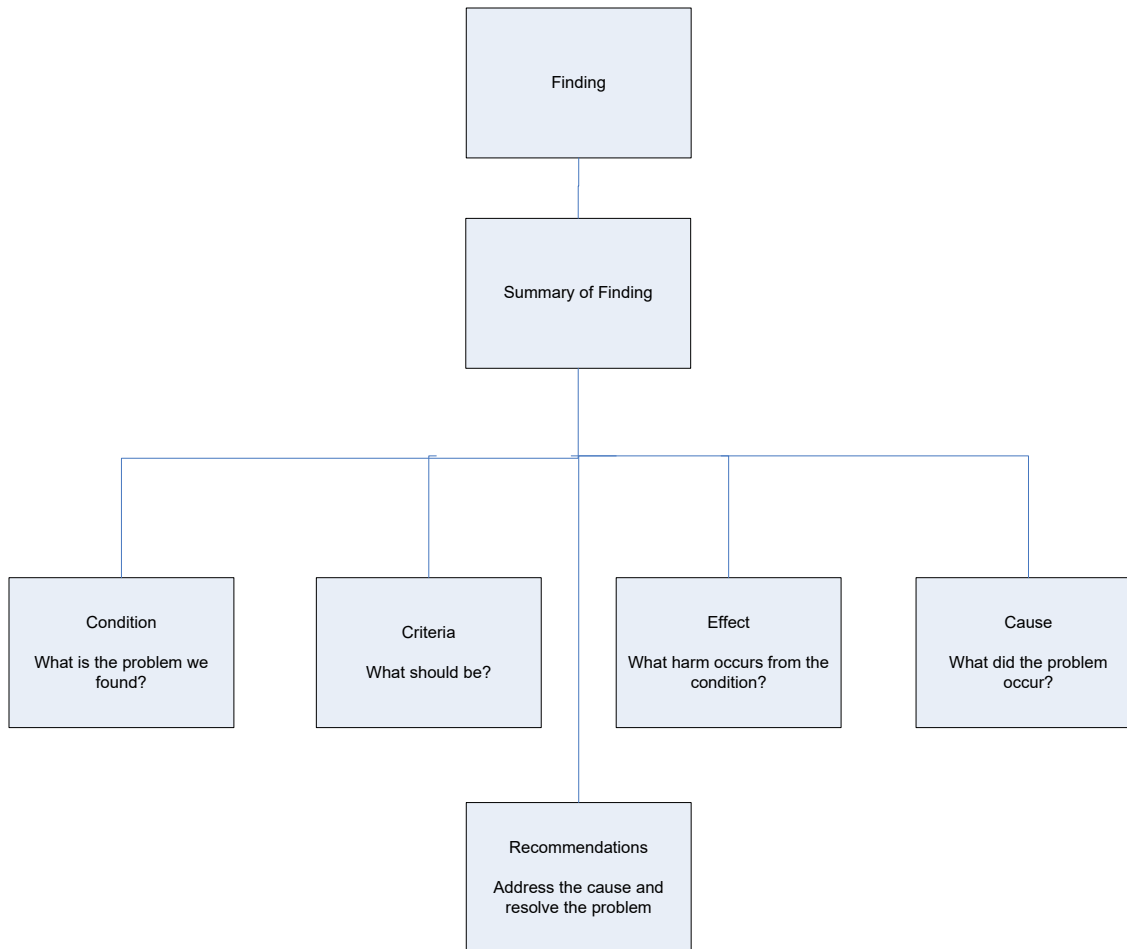
Report Process
<ol style="list-style-type: none"><li>1. Auditor creates document frame/report outline</li><li>2. Report draft meeting is held</li><li>3. Auditor develops draft report</li><li>4. Supervisor reviews draft report</li><li>5. City Auditor reviews and approves draft report</li><li>6. Independent Report Review Process</li><li>7. Draft audit report is issued to management</li><li>8. Exit Conference</li><li>9. Final draft report is issued to management</li><li>10. Management submits written response to audit report</li></ol>



### Audit Report

1. Auditor creates document frame/report outline based on preliminary audit finding. The auditor drafts an introduction or summary that identifies the key issues and components of the report summary. The report summary can be presented as text box, as shown in the next page, or presented as report outline. As discussed in Section 4, the auditor needs to ensure the report outline contains the elements of a finding. A meeting is held with the City Auditor and Audit Manager to discuss the report outline.





2. A report draft meeting is held to discuss the report frame/outline. The purpose of the meeting is to obtain City Auditor and Audit Manager input on the proposed findings. Additional work may be required or if agreement is reached, the auditor proceeds to drafting the report draft.
3. Auditor develops draft report based on office guidelines. See below for specific report content requirement and general writing guidelines.
4. Audit Supervisor reviews the draft report by checking that evidence is accurate and sufficient and that the findings, conclusions, and recommendations are well-argued and supported.
  - Overall quality of the draft and its consistency with the reporting standards for content and presentation.
  - Responsiveness to the assignment objectives.
  - Soundness of the evidence supporting the findings and recommendations.
  - Logic, reasonableness, and soundness of the argument supporting the findings and recommendations.

- Appropriateness, constructiveness, and specificity of recommendations.
- Professional quality of the writing and presentation.

Once the Supervisor's comments have been addressed, the report draft is submitted to the City Auditor for review.

5. The City Auditor reviews the draft report for message content, readability, and tone. The in-charge auditor makes changes to the report draft as appropriate and submits the revised report draft back to the City Auditor for review. At this point, the report draft may undergo a separate editorial review.
6. After the City Auditor approves the draft report for issuance, the draft report undergoes an Independent Report Review. As discussed in Section 2, the independent report review is an important component of our quality assurance program. It is a detailed word-by-word, line-by-line examination of an indexed office draft of the report to ensure that its contents are accurate and supported. The City Auditor or Supervisor assigns an audit staff member who has not worked on the project to verify the accuracy of the information and whether the evidence supports the contents of the draft. Once this process is complete, the in-charge will prepare the report for distribution, including proper formatting.
7. Draft report issued to entity management. Report draft should be transmitted to entity management.
8. Exit meeting is held to review and discuss report with management. Meeting can be scheduled in advance.
9. Final draft report is issued. Management generally has two weeks to respond to draft report. City Auditor may grant a one week extension.
10. Final Audit report issued.

## REPORTING STANDARDS

Auditing standards require that auditors must issue audit reports communicating the results of each completed performance audit. The standards provide auditors flexibility in determining reporting format. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. For example, auditors may present audit reports using electronic media that are retrievable by report users and the audit organization. The users' needs will influence the form of the audit report. Different forms of audit reports include written reports, letters, briefing slides, or other presentation materials. The City Auditor will decide on the most appropriate report format.

The purposes of audit reports are to (1) communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, as applicable; and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken.

### Office of the City Auditor Report Content Policy

Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. The Audit Standards Plan will document compliance with these provisions. The published report should generally include an executive summary, mission statement describing the purpose and authority of the office, title page, transmittal letter, executive summary, table of contents, introductory material, background, findings, recommendations, notes, appendixes, and responses of the affected agencies. For all significant audit reports, a Highlights page summarizing the report will also be prepared. See example Highlights page below.

### Transmittal Letter

Letter addressed to the Members of the Audit Committee and cc's the Mayor, City Council members, Chief Operating Officer, Chief Financial Officer, Chief Deputy Operating Officer, department directors, Independent Budget Analyst, and City Attorney. Includes report title, reference to a written response, committee date, and audit team members. See example Transmittal Letter below.

### Executive Summary

The executive summary briefs the reader on the substance of the report. It highlights the key findings and issues and summarizes the recommendations and agency responses. The summary is generally a point-by-point summary of the report, using a bullet-type format to highlight the findings and recommendations of the report.

## Introductory Chapter

Usually the first chapter explains the impetus and authority for the report, gives some background on the subject of the report, lists the objectives of the assignment, describes the scope and methodology of work, and declares any significant limitations. Normally this section contains a statement that the project was conducted according to generally accepted government auditing standards and describes any review of management controls.

### Reporting Auditor's Compliance with GAGAS

The standards require that when auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement, in the audit report to indicate that they performed the audit in accordance with GAGAS:

**We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.**

#### Office of the City Auditor Policy on Compliance with GAGAS

All City Auditor reports will be done in accordance to GAGAS and will have the above statement in the Objective, Scope, and Methodology section of the audit report. In the event of non-compliance with any applicable GAGAS requirement, we should include a modified GAGAS compliance statement in the audit report. We can modify the above statement and indicate the standard that was not followed or specify that we did not follow GAGAS.

## Background

The background prepares the reader for the material to follow and enables the reader to better understand the findings and recommendations. Findings, conclusions, or recommendations are not discussed in the background. The background may include information on the following elements: the authority and purpose of the program being examined, the character and responsibilities of the administering organization, funding sources and expenditures, staffing and organization, the nature of the subject being studied, and key concepts and terms.

### Objectives, Scope, and Methodology

All audit reports should include a description of the audit objectives and the scope and methodology used for addressing the audit objectives. This information allows report users to understand the audit purpose,

the nature and extent of the audit work performed, the context and perspective regarding what is reported, and any significant limitations in audit objectives, scope, or methodology.

### **Reporting confidential or sensitive information**

If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary.

Certain information may be classified or may be otherwise prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate, classified or limited use report containing such information and distribute the report only to persons authorize. Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information from a publicly available or widely distributed report.

### **Report Findings**

In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Clearly developed findings assist management or oversight officials of the audited entity in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. However, the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives.

Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

### **Deficiencies in Internal Controls**

Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies in internal control that are not significant to the objectives of the audit, they may include those deficiencies in the report or communicate those deficiencies in writing to officials of the audited entity unless the deficiencies are inconsequential considering both qualitative and quantitative factors. Auditors should refer to that written communication in the audit report, if the written communication is separate from the audit report.

## **Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, and Abuse**

When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding.

When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.

When fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings, and for example, report only on information that is already a part of the public record.

### **Outside Reporting**

When management fails to act regarding the reporting of fraud, illegal acts, violations of contract provisions and grant agreements, we have an obligation to report to parties outside the audited entity. The standards require outside reporting in the following two circumstances:

1. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.
2. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that (1) is significant to the findings and conclusions, and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

## **Office of the City Auditor Policy**

The City Auditor will be responsible for determining when management has failed to act appropriate regarding the reporting of fraud, illegal acts, violations of contract provisions and grant agreements. The City Auditor will be responsible for reporting to outside entities.

### **Conclusions**

Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the auditors' conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they lead to the auditors' recommendations and convince the knowledgeable user of the report that action is necessary. All audit reports must have conclusions.

### **Recommendations**

Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. Effective recommendations encourage improvements in the conduct of government programs and operations. Recommendations are effective when they are addressed to parties that have the authority to act and when the recommended actions are specific, practical, cost effective, and measurable.

Recommendations should be specific and clear, and directed at resolving the cause of identified problems. Auditors should avoid using verbs such as, consider or may in report recommendations, but make recommendations that are action oriented. Recommendations should be made to improve operations or program effectiveness, or improve economy and effectiveness.

### **Reporting Views of Responsible Officials**

Audit standards require that we include the views of responsible officials of the audited entity and the corrective actions they plan to take. Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete, and objective.

Obtaining the comments in writing is preferred, but oral comments are acceptable.<sup>1</sup> When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the conduct of the work and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with the findings, conclusions, and recommendations in the draft report, or major controversies with regard to issues discussed in the draft report.

Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received. When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

If the audited entity refuses to provide comments or is unable to provide comments within a reasonable period of time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments.

<sup>1</sup> When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.



## **Office of the City Auditor Policy On Reporting Views of Responsible Officials**

All audited entity officials will be provided ample opportunity to review and comment on draft audit reports. Once a draft audit report has been approved by the City Auditor and has undergone Independent Report Review, a draft report will be issued to management to discuss at an exit conference.

The purpose of the exit conference meeting is to provide the responsible officials of the audited program the opportunity to state their views concerning the auditors' findings, conclusions, and recommendations, as well as corrections planned. To ensure that the audit report is fair, complete, and objective, the City Auditor provides the auditee an audit report draft and invites auditee representatives to the Exit Conference in which the auditee representatives can state their views concerning the audit findings, conclusions, and recommendations. At this meeting, the auditee representatives will also explain the corrections they plan to do in response to the audit findings and recommendations. Based on the outcome of the exit conference, a final draft report, incorporating any changes discussed at the meeting will be issued to management. Entity management will generally have two weeks to respond to the final draft report. The City Auditor may grant a one week extension. *Note: the new response period will require changing Administrative Regulation 15.10 which allows Department Directors 60 days to respond to audit recommendations.*

In addition to their written response, entity management may submit a separate one to two page memorandum of program accomplishments to include in the final draft report. This memorandum helps ensure that the final report is fair, complete, and objective.

### **Report Distribution**

Auditing standards require that we distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports. All reports will be made available to the public by posting them on the City Auditors website (link: <http://www.sandiego.gov/auditor/reports/index.shtml>) except when certain information may be classified or otherwise prohibited from general disclosure.

If after a report is issued, auditors discover that they did not have sufficient, appropriate evidence, the City Auditor will communicate this information to appropriate officials, remove the report from the Office of the City Auditor website, and determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions.

## Example of Transmittal Letter



### THE CITY OF SAN DIEGO

May 31, 2019

Honorable Mayor, City Council, and Audit Committee Members  
City of San Diego, California

Transmitted herewith is a performance audit report on the City's Right-of-Way Tree Maintenance Program. This report was conducted in accordance with the City Auditor's Fiscal Year 2019 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief are presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations are presented after page 43 of this report.

We would like to thank staff from the Transportation & Storm Water Department for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff members responsible for this audit report are Laura Reyes-Cortez, Chris Kime, and Danielle Knighten.

Respectfully submitted,

A handwritten signature in black ink that reads "Kyle Elser".

Kyle Elser  
Interim City Auditor

cc: Kris Michell, Chief Operating Officer  
Stacey LoMedico, Assistant Chief Operating Officer  
Ron Villa, Assistant Chief Operating Officer  
Rolando Charvel, Chief Financial Officer  
Andrea Tevlin, Independent Budget Analyst  
Mara Elliott, City Attorney  
Johnnie Perkins, Deputy Chief Operating Officer  
Kris McFadden, Director, Transportation & Storm Water Department  
Gene Matter, Assistant Director, Transportation & Storm Water Department  
Kristy Reeser, Deputy Director, Transportation & Storm Water Department  
Nathan Patterson, Deputy Director, Transportation & Storm Water Department  
Brian Widener, City Forester, Transportation & Storm Water Department  
Juan Aguirre, Program Manager, Transportation & Storm Water Department



OFFICE OF THE CITY AUDITOR  
600 B STREET, SUITE 1350 • SAN DIEGO, CA 92101  
PHONE (619) 533-3165 • FAX (619) 533-3036

TO REPORT FRAUD, WASTE, OR ABUSE, CALL OUR FRAUD HOTLINE (866) 809-3500

## Report Writing Audit Program

<b>Audit Procedures</b> <b>Report Writing</b>
<ol style="list-style-type: none"><li>1. Report Frame/Outline</li><li>2. Report Outline Meeting</li><li>3. Auditor develops draft report</li><li>4. Supervisor reviews draft report</li><li>5. City Auditor reviews and approves draft report</li><li>6. Independent Report Review Process</li><li>7. Report draft is edited</li><li>8. Draft audit report issued to management</li><li>9. Exit Conference</li><li>10. Final draft report is issued to management</li><li>11. Management submits written response to audit report</li><li>12. Final audit report is issued with written response.</li></ol> <p>These steps will be documented in the Report Writing section of MKInsight.</p>

# SUPPLEMENTAL GUIDANCE ON REPORT WRITING

This supplemental section provides guidance on writing audit reports and describing audit report formats.

## Finding Chapter

Most reports issued by the office contain findings and conclusions called for by the objectives and supported by the evidence. Findings are the determinations made as a result of the work of the project; conclusions interpret the meaning of the findings and other report material and link all portions of the discussion. Findings include significant instances of noncompliance and uncorrected deficiencies from past audits that affect the objectives of the current audit.

We include sufficient, competent, and relevant information to produce understanding of the findings, including any background information necessary.

Audit findings often have been viewed as containing the elements of criteria, condition, effect, and when problems are found, the cause. However, the elements needed for a finding depend on the project objectives. A finding is considered *complete* if it meets the objectives of the project and the standards of evidence and is convincing.

## Example of Findings

The presentation of findings follows traditional strategies of argument and persuasion. As a general rule, the report follows a deductive structure with the main issue or problem stated upfront in a summary statement such as the following example:

**The Department of Labor does not give applicants enough information when it denies their requests for unemployment benefits.**

The order of presenting in detail the elements of the finding may then vary somewhat, but a frequent approach is to begin by describing the condition with supporting evidence such as the following example:

**Over 60 percent of the unemployment benefit case files we reviewed did not provide sufficient information on the reasons for the department's decisions. Denial notices for unemployment benefit claims were especially poor. Department employees often stated that the claims were denied because employment connection was not found.**

The condition is measured against criteria such as standards, statutes, rules, or common sense. The report describes the criteria and explains why they are applicable such as the following example:

**Simply telling an applicant that an employment connection was not found does not explain the decision. It does not (1) explain why employment connection was not found, (2) identify the evidence considered in adjusting the claim, or (3) provide an applicant with any indication of how the agency reached its decision. Yet the department's statement of procedural and**

**appellate rights tells an applicant to consider this kind of information when deciding whether to appeal.**

A discussion of effect gives significance to the finding. It shows why the problem warrants attention and helps stimulate interest in correcting it. Whenever possible, the discussion quantifies the effect in dollars, time, service, and so forth as in the following example:

**The importance of giving an applicant a full explanation of the department's decision can be seen in the following case study. In June 1986, an applicant sought 100 percent of unemployment benefits for employment service with two recent employers. In this particular case, the claim was eventually awarded after a delay of four months when the applicant's former employers sent a copy of the company's unemployment insurance policy to the department and the claim was reopened.**

Attributing a cause or causes to a condition means explaining why and how the problem occurred. Recommendations are often addressed to the causes as in the following example:

**One major limitation is the department's centralized computer system that produces most decision notices. If the system is to provide more meaningful information, it has to be made more flexible. It is a rigid system that does not accommodate review and evaluation of correspondence, changes, additions to notices, or details of specific claim actions. To generate a notice using this system, staff members can select from only a limited number of standardized, general paragraphs available on the system. They cannot change or expand the content of the notice to include the information the applicant needs.**

**We recommend that the director modify the computer system to provide greater flexibility in the preparation of decision notices. At a minimum, notices should list the evidence considered and the best rationale for decisions.**

### **Report Readability Is The Number One Goal!**

Audit reports must be readable, that is, the reader can understand the writer's intended message. Report readability is affected by seven elements:

<b>Content</b>	A key to a clear audit message is to ensure the audit objectives have been met. Readers need to see that the findings address the questions raised by the audit objectives and the recommendations clearly emerge from those findings. The report message must be clear and supported and flow logically from the audit objective
<b>Organization</b>	Audit reports must be organized in manner that allows busy readers to find important information and easily understand the report message and significance. Putting the message upfront helps readers understand the message quickly and easily.

<b>Format</b>	Reports should be formatted with related sections that are labeled with informative titles.
<b>Paragraphs</b>	Should be presented deductively with both unity and coherence, allowing readers to understand the relationship among the reported information. Every sentence supports or develops the main point established at the beginning of the paragraph. Sentences should follow each other logically and smoothly. Limit paragraphs to 10 lines.
<b>Sentences</b>	Structure must be logical and answer what is the action, who is responsible for the action, and who is affected by the action; or follow the structure “what is equal to what.” Sentences should be less than 30 words and use active voice.
<b>Word Choice</b>	Use plain language that is accurate. Avoid jargon and legalese.
<b>Mechanics</b>	Proper and correct grammar and sentence structure.

### **Past Audit Guidance Is Relevant**

Auditors should also strive to produce reports that meet past GAO guidance. The 2003 Revision of Government Auditing Standards required that audits reports should be timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits. However, the December 2011 revision removed this language from the standards. Nevertheless, the City Auditor these reporting elements should serve as guides for writing audit reports.

<b>Timely</b>	To be of maximum use, the audit report needs to provide relevant information in time to respond to officials of the audited entity, council, and other users’ legitimate needs. Likewise, the information provided in the report needs to be current. Therefore, auditors should plan for the appropriate issuance of the report and conduct the audit with these goals in mind.
<b>Complete</b>	Being complete requires that the report contain all evidence needed to satisfy the audit objectives and promote an adequate and correct understanding of the matters reported. It also means the report states information and findings completely, including all necessary facts and explanations. Giving report users, an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity’s operations.
<b>Accurate</b>	Accuracy requires that the evidence presented be true and that findings be correctly portrayed. The need for accuracy is based on the need to assure report users that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the reliability of an entire report and can divert attention from the substance of the report. Also, use of

inaccurate evidence can damage the credibility of the issuing audit organization and reduce the effectiveness of its reports.

Evidence included in audit reports should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means describing accurately the audit scope and methodology and presenting findings and conclusions in a manner consistent with the scope of audit work. The report also should not have errors in logic and reasoning.

- Objective** Objectivity requires that the presentation of the entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner so that report users can be persuaded by the facts. The report should be fair and not misleading and should place the audit results in perspective. This means presenting the audit results impartially and fairly. In describing shortcomings in performance, auditors should put findings in context. For example, the audited entity may have faced unusual difficulties or circumstances.
- Convincing** Being convincing requires that the audit results be responsive to the audit objectives, that the findings are presented persuasively, and that the conclusions and recommendations follow logically from the facts presented. The information presented should be sufficient to convince users to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Reports designed in this way can help focus the attention of responsible officials on the matters that warrant attention and can provide an incentive for taking corrective action.
- Clear** Clarity requires that the report be easy to read and understand. Reports should be prepared in language as clear and simple as the subject permits. Use of straightforward, non-technical language is essential to simplicity of presentation. Whenever technical terms, abbreviations, and acronyms are used, they should be clearly defined.
- Concise** Being concise requires that the report be no longer than necessary to convey and support the message. Extraneous detail detracts from a report, may even conceal the real message, and may confuse or distract the users. Also, needless repetition should be avoided. Although room exists for considerable judgment in determining the content of reports, those that are fact-based but concise are likely to achieve greater results.

## Example of Highlights Page



### Performance Audit of the City's Climate Action Plan

The City can strengthen its oversight mechanisms to ensure departments stay on track to implement CAP goals, and can improve its fiscal planning efforts for CAP implementation by developing a prioritization mechanism and estimating costs.

#### Why OCA did this study

Cities play a vital role in the global response to climate change by curbing their greenhouse gas (GHG) emissions. The City's Climate Action Plan (CAP) is a flexible plan that contains a comprehensive set of goals, actions, and targets that the City can use to reduce GHG emissions.

#### What OCA found

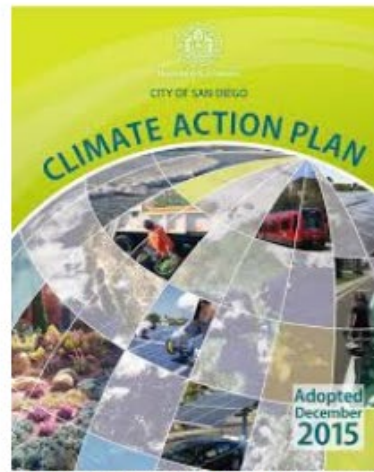
While the City has been nationally and locally recognized for its CAP, plans are only as good as their implementation, and the City has fallen behind on some of its CAP actions. We found that the City can strengthen its CAP implementation by improving oversight mechanisms for accountability, coordination, and fiscal planning.

**Finding 1: The City can strengthen its oversight mechanisms to ensure City departments stay on track to implement CAP actions, and can better inform key decisionmakers of implementation progress.**

- The Sustainability Department does not currently have authority or mechanisms to hold departments accountable for CAP implementation and may require additional staffing to effectively carry out its duties.
- CAP-related City departments are not required to have formally assigned staff for CAP implementation and are not required to proactively plan for CAP implementation.
- The City Council does not have dedicated opportunities for holding departments and Sustainability accountable for CAP implementation.
- Sustainability Roundtable meetings can be used more effectively as a forum for additional coordination and collaboration between departments.

**Finding 2: The City can improve its fiscal planning efforts for CAP implementation by developing a prioritization mechanism and estimating costs.**

- Despite several attempts, the City has not yet developed a fiscal planning document to project the future costs of implementing the actions necessary to meet CAP targets.
- CAP implementation cost estimates would need to be based on implementation plans, but these plans do not currently exist.



Source: [https://www.sandiego.gov/sites/default/files/final\\_july\\_2016\\_cap.pdf](https://www.sandiego.gov/sites/default/files/final_july_2016_cap.pdf)

#### What OCA recommends

We make six recommendations to improve the City's CAP implementation. The City Administration and Sustainability Department agreed to implement all six recommendations.

Key recommendation elements include:

- Requiring CAP-related City departments to annually provide CAP workplans to the Sustainability department for review and approval;
- Strengthening opportunities for collaboration among City departments;
- Better informing the public and City Council on CAP implementation plans and progress;
- Developing a rating system of CAP measures to help inform prioritization; and
- Developing a CAP implementation plan, including an estimate of associated costs, information on funding sources, and identification of funding gaps.

For more information, contact Andy Hanau, City Auditor at (619) 533-3108 or [cityauditor@sandiego.gov](mailto:cityauditor@sandiego.gov)



## Section 7

# Risk Assessment, Audit Work Plan, Recommendation Follow-Up, and Monthly and Annual Reports

In this section of the audit manual, we discuss the process for developing a citywide risk assessment model, an annual audit work plan, recommendation following-up, and communicating audit achievements through accomplishments and activities reports.

### Citywide Risk Assessment Model

On an annual basis, the Office of the City Auditor will conduct a Citywide Risk Assessment to identify potential audit subjects. Generally Accepted Government Auditing Standards (GAGAS) and the Institute of City Auditors' Standards (IIAS) require the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. The Office of the City Auditor will complete a Citywide Risk Assessment as a means to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City. The results of the completed Citywide Risk Assessment will be utilized in preparing City Auditor's Audit's annual work plan. When a City Activity Group is selected to be audited, we will perform a more in-depth risk assessment to ensure our audit procedures cover the areas of highest risk for that Activity Group.

The objective of this risk assessment process is to identify, measure, and prioritize the City's potential audits (auditable units) based on the level of risk to City operations.

There are four main steps that will be followed to prepare the annual Citywide Risk Assessment Model:

1. Review professional standards.
  - a. Review the current GAGAS and IIAS recommended procedures for risk assessments.
  - b. Review risk assessment models currently used by other similar government entities.
2. Define the City's audit universe.
  - a. The audit universe is a listing of all of the City's significant "Auditable Units" (all of the potential audits that could be performed).

- b. Create a list of all City Departments and significant City Agencies and their primary functions (Activity Groups) as the Auditable Units.
  - c. Use City budget and/or other data available, the City's CAFR, prior audits, and input from those in charge of operations to create the audit universe.
- 3. Identify and rank major risks related to the City's Auditable Units.
  - a. Those in charge of City operations will complete questionnaires designed to identify and rank the major risks associated with the City's primary activities (Auditable Units).
  - b. The questionnaires will be designed to measure quantifiable risk factors to score the level of risk for the City's Auditable Units. Examples of measurable risk factors are:
    - Budgeted expenditures.
    - Budgeted revenue.
    - Number of budgeted employees.
    - Annual value of citywide transactions responsible for in addition to budgeted expenditures and revenue (e.g. Payroll Section reviews citywide payroll payments of approximately \$650 million annually).
    - Liquidity and negotiability of assets (Level of cash and assets easily converted to cash handled by the department).
    - Compliance with regulations (Level of potential loss due to regulatory sanctions or penalties).
    - Public exposure and interest.
    - Complexity of transactions.
    - Quality of internal controls.
  - c. The questionnaires completed by management will assign a risk score of 0 (low), 3 (medium low), 5 (medium), 7 (medium high), or 9 (high) for each of the measurable risk factors used based on the answers provided.
- 4. Complete the Citywide Risk Assessment by calculating the total risk score for each Auditable Unit and sort them in order of highest risk score to the lowest.
  - a. Tabulate the risk scores gathered from the questionnaires
  - b. Determine the weights that will be assigned to each risk factor based on relative importance.

- c. Calculate the total risk score for each auditable unit by applying the weights to the risk scores and compute the total.
- d. Determine the risk ranking for each auditable unit by stratifying the total risk scores in descending order by tenths, and identifying the top 30 percent (or those ranking 10, 9, or 8) as High Risk, the next 40 percent (ranking 7, 6, 5, 4) as Medium Risk, and the bottom 30 percent (score of 3, 2 or 1) as Low Risk.

The Auditable Units (City Departments / Agencies and their primary functions) with a high-risk score merely indicates that the services they provide or the functions they are responsible for are by nature a high risk activity because of such factors as having a large amount of expenditures and revenues or a high level of liquid assets such as cash. A high-risk score indicates that if something were to go wrong within that Activity Group, it could have a greater impact to the City than a lower risk Activity Group. A high-risk score does not mean that an activity is being managed ineffectively or indicate whether adequate internal controls are in place and functioning as intended. The overall results identify the activities with the highest risk factors that may warrant and benefit from additional management action or audit services. A risk assessment of the City's information technology systems will also be prepared. The completed Risk Assessment Model and IT Risk Assessment will form the basis for the City Auditor's Audit Work Plan. Annually, the Audit Committee will place on the meeting agenda the risk assessment reports along with the proposed audit work plan.

### **Audit Work Plan**

At the beginning of each fiscal year, the City Auditor will propose an annual audit work plan that will identify all proposed audits to be undertaken throughout the year. The work plan will identify 1) all audits in progress; 2) audits not started; 3) required annual audits, such as the Mission Bay Funds and Inventory Audits; 4) on-going audit assignments, such as Recommendation Follow-up and Fraud Hotline activities; 5) newly proposed audits based on the Citywide Risk Assessment model; and 6) input from the Mayor, City Council, and Administration on potential audit subjects. Additional information will include a preliminary audit objective and estimated audit hours. Audit requests received during the fiscal year will be addressed through the Audit Committee.

The Annual Audit Work Plan will be presented to the Audit Committee on an annual basis by the second meeting of the fiscal year together with the results of the risk assessment. Requests to add audits to the work plan midyear will be presented to the Audit Committee with a City Auditor analysis of the impact of adding the proposed audit to the work plan.

## **Recommendation Follow-Up Process**

In order to ensure recommendations are implemented on a timely basis, the City Auditor will undertake a semi-annual recommendation follow-up process to track the status of all previous audit recommendations. Beginning in February 2009, the City Auditor began preparing a semi-annual report on the status of all open recommendations for the previous six months ending December 31, 2008.

In January and July of each year, the Office communicates with the Administration to initiate the recommendation follow up process. The open recommendations are accessed by the administration via the web portal. During this process all open recommendation statuses are updated by the departments. For recommendations that are reported as implemented, the management official should submit proof of implementation. All management responses should be approved by the Department Director and the Chief Operating Officer, or his designee. Audit staff will review management responses and conduct follow-up work to verify recommendations deemed "Implemented". For each open recommendation, audit staff will write a brief summary of their findings, and note if the recommendation is implemented, in process, or not implemented. The report will also call out recommendations that need additional funding for implementation; result in increased revenues; or achieve cost savings for the City. The Administration will have an opportunity to review the draft recommendation report prior to issuance.

Semi-annually, the Audit Committee will place on the meeting agenda the Recommendation Follow-up Report. The City Auditor will make a presentation on the status of all previously issued recommendations, with estimated timeframes for implementation.

## **Monthly Reports To Audit Committee**

Approximately each month, the City Auditor will issue a report to the Audit Committee. The report will include 1) a listing of issued audit reports and memorandums; 2) a listing of all ongoing audit assignments, including information on audit status, hours, and target issuance date; 3) approved audits not started; and 4) a listing of significant City Auditor and staff activities and accomplishments.

At each Audit Committee meeting, the meeting agenda will generally include an update from the City Auditor regarding office activities and accomplishments. The City Auditor will present a summary of the audit activities since the prior audit committee meeting.

## **Accomplishments Reports**

Public accountability is an important component of trust. It is essential for the Office of the City Auditor to make public a record of its activities and accomplishments on a periodic basis. The City Auditor will periodically issue a report with the following information:

- Mission statement.
- Information on types of audits performed.
- Benefits to the City.
- Summary of audit work performed - executive summary of audit reports.
- Details regarding the audit reports issued and number of recommendations made to improve City operations during the reporting period.
- Any noteworthy recognition of leadership, professional development and other accomplishments.

The City Auditor will distribute this report to the Mayor, City Council, and the Audit Committee members. If desired, this report will be scheduled for an Audit Committee meeting.

## **Section 8**

### **Fraud Hotline Procedures**

In this section of the audit manual, we discuss the City Auditor's policy and procedures for reviewing and reporting on Fraud Hotline referrals.

#### **Overview of the Fraud Hotline Program**

##### **Introduction**

The Office of the City Auditor has contracted with an independent third-party provider to receive Fraud Hotline calls from City employees and the public at 866-809-3500 providing complete confidentiality. The caller can choose to remain anonymous. The third-party provider also offers online reporting.

Information received from a whistleblower, or Fraud Hotline reporter, is documented in an organized Fraud Hotline report. Reports that are made directly to the Office of the City Auditor in person, by telephone, email, or by written correspondence are also entered into the Case Management System as a Fraud Hotline report.

On a regular basis, the City Auditor will convene a Fraud Hotline Intake and Review Committee to review all Fraud Hotline reports received. A summary of reports that were not in the purview of the Fraud Hotline and investigations to be conducted by the Office of the City Auditor will be provided. The Committee is composed of the following members or designees: (1) City Auditor, (2) Assistant City Auditor, (3) City Auditor's Fraud Investigators, (4) Personnel Director, (5) Human Resources Director, and (6) Chief Compliance Officer.

Fraud Hotline reports to be referred to City departments for investigation and the results of prior investigations will be reviewed in detail by the Fraud Hotline Intake and Review Committee. Fraud Hotline reports to be referred to City departments for investigation include issues such as employee relations not involving management, customer service complaints, policy matters, or labor/management issues that have been made to the Office of the City Auditor either through the Fraud Hotline or by any other means.

Reports received by the Fraud Hotline that allege certain labor/management issues (e.g. discrimination, sexual harassment, substance abuse, and workplace violence/threats) are generally forwarded to the appropriate management function for review with no further action by the City Auditor. The complete facts of each case will determine the disposition, in consultation with HR/Personnel/other relevant agencies, as necessary.

## **Fraud Hotline Incident Report Dissemination**

Upon completion of a Fraud Hotline reporter's call or online report, the independent third-party provider sends a Fraud Hotline report to the City Auditor who makes the determination of how the report will be investigated. At the time of the call, in the instance where the reporter has identified him/herself, the third-party provider shall ask whether the City Auditor may share his/her identity with persons outside of the Office of the City Auditor. A Fraud Investigator will contact the Fraud Hotline reporter to verify if his/her identity may be shared. Identities of Fraud Hotline reporters will not be shared outside of the City Auditor without such permission, in writing, and will comply with the California Government Code §53087.6.

Fraud Hotline report contents shall only be discussed with: management and staff in the City Auditor's Office with a need to know, attorneys and investigators from the City Attorney's Office, Law Enforcement regarding actual or potential referrals for investigation, Fraud Hotline Intake and Review committee members related to the work of the committee, and other individuals as determined by the City Auditor.

Prior and current Fraud Hotline reports and identified risks relevant to performance audits conducted by the Office of the City Auditor will be reported to the audit team as part of the Government Auditing Standards' requirement to consider fraud risks when planning audit procedures.

Incomplete reports will result in a request for more information via the third-party provider's case management system and closed if the necessary details are not provided within 30 days of the last message from the Fraud Hotline reporter, or the initial report date if no subsequent information was provided. If the Fraud Hotline system was not used to make the initial report (such as anonymous notes delivered through interoffice mail) the incomplete Fraud Hotline report will be held open for 30 days.

## **Reporting**

When a significant allegation is substantiated, a public Fraud Hotline Investigation Report will be issued. The City Auditor will determine which allegations are significant, and will exercise discretion regarding the nature, timing, and extent of public reports of substantiated Fraud Hotline investigations.

The City Auditor will maintain the appropriate level of confidentiality regarding all Fraud Hotline information, including the information provided in public reports. In order to protect the confidentiality and integrity of investigations, whistleblowers who provide an allegation will not be given details or updates regarding the investigation except for the information provided in publicly-issued reports.

## **Section 9**

### **Application Guidance On Internal Control, Abuse, Fraud, and Assessing the Significance of Laws, Regulations, Or Provisions Of Contracts Or Grant Agreements**

The following sections provide application guidance for auditors and audited entities to assist in the implementation of generally accepted government auditing standards (GAGAS).

#### **The following are examples of control deficiencies:**

- a. Ineffective oversight by those charged with governance of the entity's financial reporting, performance reporting, or internal control, or an ineffective overall governance structure.
- b. An ineffective internal audit function or risk assessment function at an entity for which such functions are important to the monitoring or risk assessment component of internal control, such as for a large or complex entity.
- c. Failure by management or those charged with governance to assess the effect of a deficiency previously communicated to them and either to correct it or to conclude that it does not need to be corrected.
- d. Inadequate controls for the safeguarding of assets.
- e. Inadequate design of information systems general, application, and user controls that prevents an information system from providing complete and accurate information consistent with financial, compliance, or performance reporting objectives or other current needs.
- f. Failure of an application control caused by a deficiency in the design or operation of an information system's general controls.
- g. Employees or management who lack the qualifications and training to fulfill their assigned functions.

#### **The following are examples of abuse, depending on the facts and circumstances:**

- a. Creating unneeded overtime.
- b. Requesting staff to perform personal errands or work tasks for a supervisor or manager.
- c. Misusing the official's position for personal gain (including actions that could be perceived by an objective third party with knowledge of the relevant information as improperly benefiting an official's personal financial interests or those of an immediate or close family member; a general partner; an organization for which the official serves as an officer, director, trustee, or employee; or an organization with which the official is negotiating concerning future employment).



**In some circumstances, conditions such as the following might indicate a heightened risk of fraud:**

- a. economic, programmatic, or entity operating conditions that threaten the entity's financial stability, viability, or budget;
- b. the nature of the entity's operations provide opportunities to engage in fraud;
- c. management's monitoring of compliance with laws, regulations, and policies is inadequate;
- d. the organizational structure is unstable or unnecessarily complex;
- e. management communication or support for ethical standards is lacking;
- f. management is willing to accept unusually high levels of risk in making significant decisions;
- g. the entity has a history of impropriety, such as previous issues with fraud, questionable practices, or past audits or investigations with findings of questionable or criminal activity;
- h. operating policies and procedures have not been developed or are outdated;
- i. key documentation is lacking or does not exist;
- j. asset accountability or safeguarding procedures are lacking;
- k. a history of improper payments;
- l. evidence of false or misleading information; and
- m. evidence of unusual patterns and trends in contracting, procurement, acquisition, and other activities of the entity or program.

Government programs are subject to many laws, regulations, and provisions of contracts or grant agreements. At the same time, their significance within the context of the audit objectives varies widely, depending on the objectives of the audit. Auditors may find the following approach helpful in assessing whether laws, regulations, or provisions of contracts or grant agreements are significant within the context of the audit objectives:

- a. Auditors may consult with either their own or management's legal counsel to (1) determine those laws and regulations that are significant to the audit objectives, (2) design tests of compliance with laws and regulations, or (3) evaluate the results of those tests. Auditors also may consult with either their own or management's legal counsel when audit objectives require testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may consult with others, such as investigative staff, other audit organizations or government entities that provided professional services to the audited entity, or applicable law enforcement authorities, to obtain information on compliance matters.

## **Section 10**

### **Application Guidance for Agreed-Upon Procedures Attestation Engagements**

This section establishes a Supplemental Audit Standards Plan that provides guidance for attestation engagements to be conducted in accordance with generally accepted government auditing standards (GAGAS). For attestation engagements, GAGAS incorporates the American Institute of Certified Public Accountants (AICPA) general standard on criteria, and the field work and reporting standards and the related Statements on Standards for Attestation Engagements (SSAE), unless specifically excluded or modified by GAGAS.

#### **Agreed-Upon Procedures Attestation Engagements**

An attestation engagement can provide one of three levels of service as defined by the AICPA, namely an examination engagement, a review engagement, or an agreed-upon procedures engagement. However, the only attestation engagements the Office of the City Auditor conducts are agreed-upon procedures. Agreed-Upon Procedures consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. In an agreed-upon procedures engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.

The City Auditor will only perform agreed-upon procedures if the subject matter is capable of evaluation against criteria that are suitable and available to users. By specifying the procedures, we agreed to perform, the department/agency requesting the review is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. These reports are intended solely for the information and use of the management of the City and are not intended to be and should not be used by anyone other than these specified parties.

#### **Supplemental Audit Standards Plan**

The following Supplemental Audit Standards Plan must be completed when auditors conduct an Agreed-Upon Procedures Attestation Engagement. It should be completed as an addendum to the Audit Standards Plan found in Section 3 of this manual. In addition, the AICPA Section Agreed-Upon Procedures Engagement Checklist should also be completed to ensure the engagement is conducted in accordance with attestation standards established by the AICPA.

GAGAS 2018 Language ALGA QCS Checklist	OCA Policies and Procedures Reference Description	Documentary Evidence
<b>SUPPLEMENTAL AUDIT STANDARDS PLAN – FOR AGREED-UPON PROCEDURES ATTESTATION ENGAGEMENTS</b>		
19.STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>AICPA STANDARDS</u>		
<p>GAGAS incorporates the AICPA general standard on criteria, the fieldwork and reporting attestation standards, and the corresponding AICPA Statements on Standards for Attestation Engagements (SSAEs). (1.18 through 1.20)</p> <p>For attestation engagements, auditors should determine which of the three levels of services apply to the engagement and refer to the appropriate AICPA standards and GAGAS section for applicable requirements and considerations. (1.18 through 1.20; 7.01 through 7.93)</p>	<p>The only attestation engagements the Office of the City Auditor conducts are agreed-upon procedures. Agreed-Upon Procedures consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed- upon procedures.</p> <p>In an agreed-upon procedures engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.</p> <p>Auditors will determine if the subject matter is capable of evaluation against criteria that are suitable and available to users.</p>	<p><b>Results or W/P Reference:</b></p>
20. FIELD WORK STANDARDS FOR ATTESTATION ENGAGEMENTS: <u>AUDITOR COMMUNICATION</u>		
<p>Auditors should communicate, in writing, pertinent information that in the auditors' professional judgment needs to be communicated to individuals contracting for or requesting the audit or examination engagement, and to cognizant legislative committees when auditors perform the audit pursuant to law or regulation, or they conduct the work for the legislative committee that has oversight. (7.78 through 7.85)</p>	<p>The agreed-upon procedures audit report will be sent to the appropriate management and those in charge with governance. It will include the following:</p> <p>The auditor's understanding of the services to be performed;</p> <p>The nature, timing and extent of planned testing;</p> <p>The level of assurance to be provided;</p> <p>Any potential restrictions on the auditor's report.</p>	<p><b>Results or W/P Reference:</b></p>

	If the engagement is terminated before it is completed, auditors will document the results of their work up to termination and the reason for termination.	
<b>GAGAS 2011 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
38.STANDARDS FOR FINANCIAL AUDITS AND ATTESTATION ENGAGEMENTS: DISTRIBUTING REPORTS		
<p><u>For financial audits, and examination, review, and agreed upon attestation agreements,</u> auditors should document any limitation on report distribution.</p> <p>Government auditors should distribute reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies. As appropriate, auditors should also distribute copies of the report to other officials who have legal oversight authority or who may be responsible for acting on findings and recommendations, and to others authorized to receive such reports. (4.45, 5.44, 5.52, 5.62)</p> <p>Internal audit organizations should communicate results to the parties who can ensure that the results are given due consideration. Prior to release to parties outside of the organization, the head of the internal audit organization should assess the potential risk to the organization, consult with senior management and/or legal counsel, and control dissemination. (4.45, 5.44, 5.52, 5.62)</p> <p>Public accounting firms contracted to perform a financial audit or attestation</p>	<p>For all agreed-upon procedures audit reports the auditors will obtain and include in the report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.</p> <p>A draft report will be provided to the responsible officials for review and comment. Obtaining the comments in writing is preferred, but summarizing oral comments are acceptable.</p> <p>If certain pertinent information is prohibited from public disclosure or excluded from the report due to confidential or sensitive nature of the information, auditors will disclose in the report that certain information has been omitted and the reason or other circumstance that makes the omission necessary.</p> <p>In the case of confidential or sensitive information, the City Auditor staff will consult City Attorney staff regarding public records laws to determine whether these laws have an impact on how the results should be communicated.</p> <p>Agreed-upon procedures reports will be distributed to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies.</p>	<p><b>Results or W/P Reference:</b></p>

<p>engagement under GAGAS should clarify report distribution responsibilities with the organization. If the audit firm is to distribute reports, it should reach agreement with the party contracting for the audit or attestation engagement about which officials or organizations will receive the report and the steps taken to make the report available to the public. (4.45, 5.44, 5.52, 5.62)</p>	<p>The report will be distributed to the officials responsible for acting on the audit findings and any recommendations.</p> <p>The reports will also be posted on the City Auditors website for public disclosure unless prohibited due to the confidential or sensitive nature of the information.</p>	
<p><b>GAGAS 2011 Language ALGA QCS Checklist</b></p>	<p><b>OCA Policies and Procedures Reference Description</b></p>	<p><b>Documentary Evidence</b></p>
<p>ADDITIONAL GAGAS REQUIREMENTS FOR REVIEW AND AGREED-UPON PROCEDURE ENGAGEMENTS</p>		
<p><u>41. For review and agreed-upon procedures engagements.</u> if, on the basis of conducting the procedures necessary to perform a review, significant deficiencies; material weaknesses; instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse come to the auditors' attention that warrant the attention of those charged with governance, GAGAS requires that auditors should communicate such matters to audited entity officials. (5.49, 5.59)</p>	<p>For agreed-upon procedures engagements, if, while conducting the procedures, significant deficiencies; material weaknesses; instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements; or abuse come to the auditors' attention that warrant the attention of those charged with governance, the auditors will communicate such matters to audited entity officials.</p>	<p><b>Results or W/P Reference:</b></p>
<p><u>42. For review and agreed-upon procedures engagements.</u> when auditors comply with all applicable requirements for a review engagement conducted in accordance with GAGAS, they should include a statement in the report that they performed the engagement in accordance with GAGAS. (5.51, 5.61)</p>	<p>All agreed-upon procedures reports will state the following when auditors comply with all applicable GAGAS requirements:</p> <p>We conducted our work in accordance with Generally Accepted Government Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. Auditors will report on any applicable standards that were not followed. If this</p>	<p><b>Results or W/P Reference:</b></p> <p>Page 132</p>

	occurs the report will include why the standards were not followed and how if affected or could have affected the results of the audit engagement.	
<u>43. For review and agreed-upon procedures engagements</u> , the AICPA standards require auditors to establish an understanding with the audited entity (client) regarding the services to be performed. The understanding includes the objectives of the engagement, responsibilities of entity management, responsibilities of auditors, and limitations of the engagement. (5.54, 5.64)	<p>The planning of the agreed-upon procedures will be documented by indicating the methodology used to perform the agreed-upon procedures, and the work will be properly supervised as indicated by the Audit Manager's or Lead Auditor's initials on the work papers and date of review.</p> <p>All agreed-upon procedures reports will state the following: These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, the department/agency requesting the review is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect.</p>	<b>Results or W/P Reference:</b>
<b>GAGAS 2011 Language ALGA QCS Checklist</b>	<b>OCA Policies and Procedures Reference Description</b>	<b>Documentary Evidence</b>
<u>45. For agreed-upon procedures engagements</u> : The AICPA standards require that the auditors' report on agreed-upon procedures engagements be in the form of procedures and findings and specifies the required elements to be contained in the report. (5.66)	<p>All agreed-upon procedures audit reports will include the following statements:</p> <p>We were not engaged to and did not conduct an examination or a review of the subject matter, the objectives of which would be the expression of an opinion or limited assurance and that if the auditors had performed additional procedures, other matters might have come to their attention that would have been reported.</p> <p>By specifying the procedures we agreed to perform, the department/agency requesting the review is responsible for ensuring that the procedures are sufficient to meet their</p>	<b>Results or W/P Reference:</b>

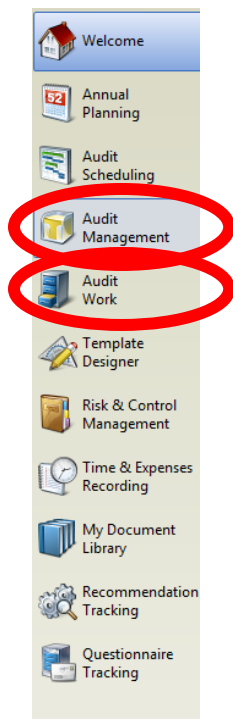
	<p>purposes, and we make no representation in that respect.</p> <p>Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.</p> <p>The reports will include the following information:</p> <p>The subject matter and assertions being reported on and state the character of the engagement.</p> <p>The report will state all of the auditor’s significant reservations about the engagement, the subject matter, and, if applicable, the assertions made.</p> <p>Auditors will report on any applicable standards that were not followed. If this occurs the report will include why the standards were not followed and how if affected or could have affected the results of the audit engagement.</p>	
--	---	--

## Section 11

### Guidance for Recording and Reviewing Working Papers in MKInsight

This section provides guidance on how to utilize the electronic workpaper system – MKInsight through the various steps of the audit to ensure all key audit steps are completed, recorded and approved. The modules incorporate templates to ensure consistency among audits. These templates are periodically reviewed and updated as needed. Therefore, some audits may differ slightly in the Audit Management module. Changes made are not retroactive to existing audits and become effective for audits initiated after the updates are approved.

MKInsight has multiple modules in one system. The modules that auditors utilize during the course of the audit to document the audit steps conducted, store workpapers and where supervisors will approve are “Audit Management” and “Audit Work”. Other modules used by staff are the “Time & Expense Recording” for time keeping for audit and non-audit related activities and “Recommendation Tracking” to follow up on open recommendations. The administration utilizes a web portal to report the status of their open recommendations that feeds into the “Recommendation Tracking” module.





Audit Management tracks more of the administrative side of an audit by “Stages”, as detailed below in **Stage 1: Administration** includes five tasks and an area for additional attachments related to those five tasks, as well as allowing for supervisor review and approval. As each area is completed, the task bar incrementally moves toward 100%. Stage 1 does not have a checklist to complete.

Audit Creation & Review

Performance Reports

Generated Reports

New Audit

New Report

Legend

Refresh

Manage audits

Manage audit associated data

Audit external archiving

Delete selected audits

Close

Save

Details

Additional Notes

Stages & Progress

Attachments

Key Dates

Auditors & Budgets

Questionnaires

Performance

Recommendations

Audit Entity: San Diego Convention Center

Audit Period: February 2016

Status: Audit Work Approved

Stage progress: 67%

Audit name: Performance Audit of San Diego Convention Center

Audit Workplan Reference: FY2016 line 14

Template: Audit File Template (v.9)

Preparation

Live

Completed

Closed

Archived

Stage 1: Administration

Task 1.1: Complete Staff Assignment Form

Open file

Create shortcut

Import / Export

Manage file versions

Name	Size	Type	Review
A-1.1a Staff Assignment Form PDF	25 KB	Adobe Acrobat Document	

Task 1.2: Conduct Staff Expectations Meeting

Open file

Create shortcut

Import / Export

Manage file versions

Name	Size	Type	Review
A-1.2a Staff Expectations Meeting Write-up	37 KB	Microsoft Word Document	

Task 1.3: Conduct Audit Kick-off Meeting

Open file

Create shortcut

Import / Export

Manage file versions

Name	Size	Type	Review
A-1.3a Audit Kickoff Meeting Write-up	36 KB	Microsoft Word Document	

Task 1.4: Issue Job Start Letter

Open file

Create shortcut

Import / Export

Manage file versions

Name	Size	Type	Review
A-1.4a Job Start Letter	13 KB	Microsoft Word Document	

Task 1.5: Conduct Entrance Conference

Open file

Create shortcut

Import / Export

Manage file versions

Name	Size	Type	Review
A-1.5a Entrance Conference Meeting Write-up	35 KB	Microsoft Word Document	

Task 1.6: Review Administration Stage Attachments

Add file

Update file

Delete file

Open file

Create shortcut

Import / Export

Start review

Mark as Approved

Unlock

View permanent files

View audit files

Name	Size	Description	Attributes	Review State	Actions	Date Last Edited	Last Edited By
A-Administrative Folder							
A-1.2b SA Expectations Meeting 6-8-16.docx	37 KB	A-1.2b SA Expectati...				8/2/2016 10:43 AM	Shawnee Pickney
A-1.2c SC Expectations Meeting 7-18-16.docx	37 KB	A-1.2c SC Expectati...				8/2/2016 11:35 AM	Shawnee Pickney
A-1.3b Kick-Off Briefing Document.docx	26 KB	A-1.3b Kick-Off Bri...				10/25/2016 12:31 PM	Shoshana Aguilar

In **Stage 2: Planning**, there are six tasks (which is update from the previous four tasks) to complete which includes a “Planning Checklist” as part of Task 2.1 (see next page for more checklist details). This section provides for all the planning documents related to the audit and an area for any additional supporting documents.

Stage 2: Planning

Task 2.1: Complete Planning Checklist

Open Checklist

Name	Type	Review State
2) Planning Stage	< n/a >	

Task 2.2: Conduct Data Reliability Questionnaire

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Data Reliability Questionnaire	56 KB	Microsoft Word Document	

Task 2.3: Complete Data Reliability Sign-Off

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Data Reliability Sign-Off	55 KB	Microsoft Word Document	

Task 2.4: Complete Data Reliability Testing Plan

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Data Reliability Testing Plan	48 KB	Microsoft Word Document	

Task 2.5: Complete Planning Memorandum

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Planning Document	58 KB	Microsoft Word Document	

Task 2.6: Conduct Planning Memorandum Meeting

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Planning Memorandum Meeting Write-up	34 KB	Microsoft Word Document	

Task 2.7: Review and Approve Planning Stage Attachments

Add fileUpdate fileDelete fileOpen fileCreate shortcutImport / ExportStart reviewMark as ApprovedUnlockView permanent filesView audit files

Name	Size	Description	Attributes	Review State	Actions	Date Last Edited	Last Edited By
B-Planning							

The planning checklist (Task 2.1 from above) provides more details of what auditors should be looking at during the planning stages. For example, auditors should review “relevant documents” which includes all policies and procedures, Budget documents, City governing documents – City Charter, San Diego Municipal Codes, Council Policies, Administration Regulations, Process Narratives and Flow Diagrams, etc. Auditors should also “Review Previous Audits” conducted on the subject matter, whether internally or externally). To gain a better understanding of the program, process, or area under consideration for audit, auditors should conduct an interview with staff to determine risks and controls and any other areas of concern while determining the scope of the audit. During this stage, Fraud is considered and discussed with management, staff, and the OCA fraud investigator, as well as reviewing and documenting any applicable IT systems and determining if an information systems control assessment is necessary.

Checklist: 2) Planning Stage					
Close Save changes					
Caption	Done	Date completed	Comments	Attachments	Contributors
Review Relevant Document	<input checked="" type="checkbox"/>	6/6/2016	See B-2.1a Budget and Govt 1-27-16 See B-2.1e Grand Jury Findings and IBA Response	< Click to add/edit attachments >	< Click to view contributors >
Review Previous Audits	<input checked="" type="checkbox"/>	6/6/2016	See B-2.1h Other Audits Lead Sheet (includes review of other audits and reports/studies)	< Click to add/edit attachments >	< Click to view contributors >
Program Staff Interviews	<input checked="" type="checkbox"/>	6/6/2016	See I.1.1a Interview with J. Kuwar See I.1.1b Interview with Lisa Celaya	< Click to add/edit attachments >	< Click to view contributors >
Field Observation	<input checked="" type="checkbox"/>	6/6/2016	SP 4-19-16 None to date.	< Click to add/edit attachments >	< Click to view contributors >
Determine if External Assistance is Necessary	<input checked="" type="checkbox"/>	6/6/2016	SP 4-19-16 None necessary to date.	< Click to add/edit attachments >	< Click to view contributors >
Review and Document IT Systems	<input checked="" type="checkbox"/>	6/6/2016	Data reliability summary work paper F-1.1.1z4 Auditors found data compiled overall to be	< Click to add/edit attachments >	< Click to view contributors >
Fraud Considerations	<input checked="" type="checkbox"/>	6/6/2016	See B-2.1u Ratio Analysis	< Click to add/edit attachments >	< Click to view contributors >
Identify Criteria	<input checked="" type="checkbox"/>	6/6/2016	See B-2.1n Criteria Workpaper	< Click to add/edit attachments >	< Click to view contributors >

**Stage 3: Risk Assessment** is where all the information collected during the planning stage is used to narrow down the potential objectives by identifying the Risks and associated Controls. After the Risk Vulnerability Assessment (Task 3.1) is discussed with and approved by OCA management, the approved objectives, risks and controls are used to populate the Audit Workplan (Task 3.2) template. The Audit Workplan serves as the Audit Program to discuss how the Audit team will test each objective, risk(s), and control(s). After discussions with and approval by OCA management, the Audit Workplan template is used to populate Task 3.3 Create Audit Objectives Based on Audit Work Plan and Assign to Auditors which when pushed live to the Audit Work module, the auditors will conduct all fieldwork testing and record all steps, methodologies, and conclusions. A scope document was added to the template and labeled Task 3.5 and Task 3.5 shown below was renamed Task 3.6: Review and Approve Risk Assessment Stage Attachments. Stage 3 does not have a checklist to complete.

Stage 3: Risk Assessment

Task 3.1: Complete Risk Vulnerability Assessment

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Risk Vulnerability Assessment	19 KB	Microsoft Excel Worksheet	

Task 3.2: Complete Audit Work Plan

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Audit Workplan	15 KB	Microsoft Excel Worksheet	

Task 3.3: Create Audit Objectives Based on Audit Work Plan and Assign to Auditors

Add Template(s)Remove Template(s)Customize TemplateUser AssignmentsStart Audit Objectives

Name	Status	Type	Custom structure	Review State
Objective D	Unreviewed	Standard layout...		
Objective E	Unreviewed	Standard layout...		
Objective F	Unreviewed	Standard layout...		

Task 3.4: Conduct Risk Assessment and Work Plan Review Meeting

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Risk Assessment and Work Plan Review Meeting	33 KB	Microsoft Word Document	

Task 3.5: Review and Approve Audit Objectives to Start Fieldwork

Add fileUpdate fileDelete fileOpen fileCreate shortcutImport / ExportStart reviewMark as ApprovedUnlockView permanent filesView audit files

Name	Size	Description	Attributes	Review State	Actions	Date Last Edited	Last Edited By
C-Risk Assessment							
Workpaper Template.docx	331 KB	Reminder - send o...				1/26/2017 11:05 AM	Nathan Otto

Page 139

**Stage 4: Fieldwork** has two tasks to complete and an area for additional supporting documents. The checklist below provides details on the steps required for completion before an audit is complete.

Stage 4: Fieldwork

Task 4.1: Complete Fieldwork Checklist

Open Checklist

Name	Type	Review State
4) Fieldwork Stage	< n/a >	

Task 4.2: Conduct End of Fieldwork Meeting

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
End of Fieldwork Meeting Write-up	36 KB	Microsoft Word Document	

Task 4.3: Review Fieldwork Attachments

Add fileUpdate fileDelete fileOpen fileCreate shortcutImport / ExportStart reviewMark as ApprovedUnlockView permanent filesView audit files

Name	Size	Description	Attributes	Review State	Actions	Date Last Edited	Last Edited By
Fieldwork							
D-1.1.2b2 Authorization documentation.pdf	8.9 MB	D-1.1.2b2 Authoriz...				12/28/2016 4:02 PM	Stephanie Chernau
D-1.1f FY15 Expansion Administration Expenses 6.7.16.xlsx	1.2 MB	D-1.1f FY15 Expans...				11/15/2016 3:56 PM	Shoshana Aguilar
D-1.1g SDCCC Sources of Revenue 8.1.16.xlsx	305 KB	D-1.1g SDCCC Sour...				12/22/2016 9:28 AM	Shawnee Pickney

Part of the checklist items is to document the *Milestone Meetings with OCA Executives* (via a Planned Update Meeting Fieldwork 1/3, 2/3, and Planned Final Update Meeting when the audit team Presents Finding Development Sheets). This provides for ongoing supervision and discussion with the executive management team. During the meetings the progress of the audit is discussed, issues that are identified as of that meeting date, and feedback from OCA Executives to the audit team. The meetings help the audit team discuss issues/findings before preparing the draft report outline.

Checklist: 4) Fieldwork Stage					
Close Save changes					
Caption	Done	Date completed	Comments	Attachments	Contributors
Conduct Data Reliability Testing	<input checked="" type="checkbox"/>	12/19/2016	Data reliability summary work paper <a href="#">F-1.1.1z4</a> Auditors found data compiled overall to be	< Click to add/edit attachments >	< Click to view contributors >
Complete Fieldwork Steps with Objectives	<input checked="" type="checkbox"/>	12/17/2016	See Objectives in Audit Work Module	< Click to add/edit attachments >	< Click to view contributors >
Conduct Milestone Meetings with OCA Executives	<input checked="" type="checkbox"/>	11/21/2016	4.1a OCA Update Meeting (2/3) 7.12.16 4.1b OCA Mngt Update 9.7.16 4.1c OCA Mngt Update 11.15.16	Attachments: 4	< Click to view contributors >
Prepare Report Outline	<input checked="" type="checkbox"/>	11/21/2016	4.1e Mngt Report Outline 11.15.16	Attachments: 1	< Click to view contributors >
Conduct the Pre-Exit Meeting with Auditee	<input checked="" type="checkbox"/>	12/17/2016	4.1f Pre Exit Confirmation	Attachments: 1	< Click to view contributors >

**Stage 5: Reporting Writing** documents the various steps of reporting writing – from draft report to OCA management to final report issuance. This stage has a checklist as detailed below. The checklist was updated in January 2017 and is in effect for audits that started in February and later in 2017.

Stage 5: Report Writing

Task 5.1: Complete Report Writing Checklist

Open Checklist

Name	Type	Review State
5) Report Writing Stage	< n/a >	

Task 5.2: Review Report Attachments

Add file
Update file
Delete file
Open file
Create shortcut
Import / Export
Start review
Mark as Approved
Unlock
View permanent files
View audit files

Name	Size	Description	Attributes	Review State	Actions	Date Last Edited	Last Edited By
R-Report							

Removed Prepare Audit Standards Plan and Final Report Issuance

Checklist: 5) Report Writing Stage

CloseSave changes

Caption	Done	Date completed	Comments
Prepare Draft Report	<input type="checkbox"/>	< None >	
Conduct Report Review Meeting	<input type="checkbox"/>	< None >	
Conduct Independent Review	<input type="checkbox"/>	< None >	
Draft Report Issuance	<input type="checkbox"/>	< None >	
Conduct Exit Conference	<input type="checkbox"/>	< None >	
Final Draft Issuance	<input type="checkbox"/>	< None >	

**Stage 6: Report Issuance** was added and updated in January 2017 and will be effective for audits starting in February or later in 2017. **Task 6.3: Attach Final Report and Distribution Email** was added here and removed from Report Writing as some of these items must be completed before report issuance and others on the day of or within a day of report issuance.

Stage 6: Report Issuance

Task 6.1: Complete Audit Standards Plan

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Audit Standards Plan	104 KB	Microsoft Word Document	

Task 6.2: Complete Review of Evidence Form

Open fileCreate shortcutImport / ExportManage file versions

Name	Size	Type	Review
Review of Evidence Form	26 KB	Adobe Acrobat Document	

Task 6.3: Attach Final Report & Distribution Email

**Stage 7: Post Report Issuance** documents and recorded items for staff to complete to close the audit. Executive management and the audit team conduct a Debrief meeting after the audit to determine Lessons Learned from the audit and pass them along to OCA staff. Auditors prepare a self-evaluation for the audit and the Manager/Supervisor completes a project evaluation and incorporates the Auditor’s self-evaluation. This becomes the basis for the auditor’s Annual Performance Evaluation. The Quality Control Review is for Executive Management to perform as part of the ongoing monitoring and determine if any changes in the process or templates are required for any audits going forward. This step ensures the audit file is complete and properly approved at all stages.

Stage 7: Post Report Issuance

Task 7.1: Complete Post Report Issuance Checklist

Open Checklist

Name	Type	Review State
6) Post Report Issuanc...	< n/a >	

Task 7.2: Review Post Issuance Attachments

Add file

Update file

Delete file

Open file

Create shortcut

Import / Export

Start review

Mark as Approved

Unlock

View permanent files

View audit files

Name	Size	Description	Attributes	Review State	Actions	Date Last Edited	Last Edited By
S-Subsequent to Issuance							

Checklist: 6) Post Report Issuance Stage

Close

Save changes

Caption	Done	Date completed	Comments
Prepare and Submit Monetary Benefits Form	<input type="checkbox"/>	< None >	
Prepare ALGA Abstract	<input type="checkbox"/>	< None >	
Conduct Debrief Meeting with OCA Executives	<input type="checkbox"/>	< None >	
Conduct Staff Evaluations	<input type="checkbox"/>	< None >	
Conduct Quality Control Review	<input type="checkbox"/>	< None >	



Audit Work is the module auditors use to record fieldwork as determined in the Audit Work Plan (Audit Management module – Stage 3), Audit work is designed to record objectives, risks, and controls and document the tests performed, test results, conclusions, and recommendations. Management and Auditors can always see the progress and status of the audit.

<div><div></div><div></div><div>Backup my Audit Objectives</div><div>Refresh</div></div>							
Name	Status	Progress	Review Progress	Assigned To	Score	Business Areas	Divisions
My Audits							
SAP Privileged User Access Audit; FY2016 IT Audit Workplan; IT Audit; January 2016	Audit Started					IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
						IT Audits	Deliver, Servic
Objective F	In Progress	<div></div> 20%		Laura Reyes-Cor...	40.0%		
Objective E	Under Review	<div></div> 100%	<div></div> 100%	< All Reviewers >	20.0%		
Objective D	Under Review	<div></div> 100%	<div></div> 100%	< All Reviewers >	25.8%		
Performance Audit of StreetLight Utility Billing; FY2017 Line 9; Performance Audit; October 2016							
Objective D	In Progress	<div></div> 0%			< n/a >	Environmental Serv...	Energy Sustain
Performance Audit of San Diego Convention Center; FY2016 Line 14; Performance Audit; February 2016							
Objective F	Approved	<div></div> 100%	<div></div> 100%		0.0%	San Diego Convent...	
Objective E	Approved	<div></div> 100%	<div></div> 100%		0.0%		
Objective D	Approved	<div></div> 100%	<div></div> 100%		35.0%		

When the auditors are working on an objective, they will see the Overall Audit Objective Description; followed by all the risks and associated controls; lastly, they will see the Testing Summary Sheets which describes the overall testing that conducted for that Risk and Associated Control. Once testing is completed, a selection is made that describes the overall assessment. The details of the testing are recorded in the Findings tab.

Audit Objectives Descriptions

D - Determine whether the City of San Diego has implemented recommendations contained in the San Diego County Grand Jury Report : San Diego Police Department Property and Evidence Room - Review of Operations, June 1, 2015

Total score: 50.0%

Risks (1/7)

D-1

SDPD has not performed a management review to identify deficiencies in property and evidence room operations, and has not addressed the deficiencies it identifies (Grand Jury Rec 15-50)

Controls (1/2)

D-1.1

Documented management review, study, or evaluation designed to identify property and evidence room operational deficiencies (TC)

D-1.2

Action plan or other strategy document to address Property Unit program management deficiencies (TC)

Testing Summary Sheets (1)

D-1.1.1

Analyze the SDPD management review deliverable to assess whether it addresses program management deficiencies

In Progress (60%)

Findings

Progress:  Done: 49, To-do: 0

Review progress:  Approve: 42 Not Approve: 0 Unreviewed: 0

MKInsight-Live • DKnighten

The instructions for ***How to Work with the Audit Objectives in Audit Work*** detail the step-by-step instructions to complete the necessary tabs during fieldwork. These tabs include:

- Details – Notes to auditor, Procedures, and Conclusions
- Additional Notes – Testing period, Sampling Method, Sample Size, Reason for the Number in the Sample, Sample Analysis, Priority (Recommendation – Appendix in the report), Remarks, Were Exceptions Noted During Testing, Were Documentation Gaps Noted During Testing.
- WP Analysis & Finding Developments
  - Analysis – record test analysis
  - Finding Development Worksheet – Record the Finding, Condition, Criteria, Cause, and Effect
- Recommendations – Recommendation to address the cause of the finding
- Attachments
- Contributors – Log of all activity

Each Risk should have a least one control recorded, but the risk can have many controls – it is not a one-for-one. Conversely, there could be many risks and one control or many risks and many controls. This is where an auditor will determine if proper control(s) exist to mitigate the risk(s). If controls are weak and do not adequately address the risk then a potential finding is listed and prepared for discussion with OCA Executive management.

As fieldwork is completed, it is reviewed and approved at two levels. Audit Work records the basis for the audit report findings, condition, cause, criteria, effect, and recommendation.