Office of Audits – Policy and Procedure Manual

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Last Revision – April 2017

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Introduction

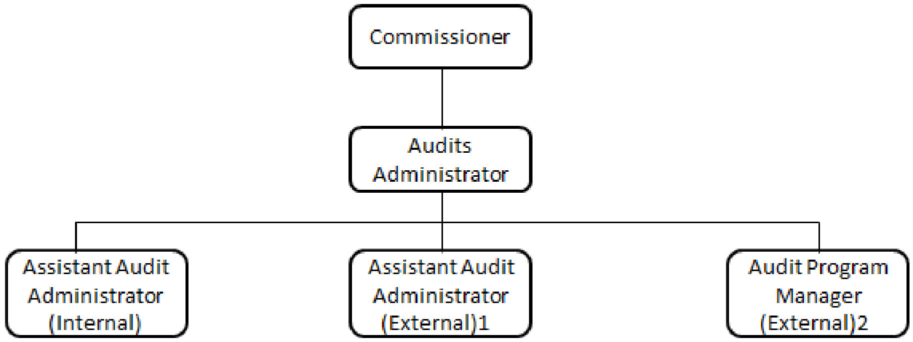
The purpose of this manual is to incorporate all internal operating policies and guidance into a single document to assist Office of Audits team members in the performance of their duties. This manual gives a broad overview of our structure and key functional areas. Additionally, this manual articulates standard operating procedures (SOPs) specific to the Office of Audits. Further, this manual gives detail regarding audit procedures specific to the respective units.

This manual is intended to set forth the purpose, objectives, procedures, and standards of performance to be used in achieving critical audit functions within GDOT, and to serve as a guideline for uniformity and direction in achieving audit goals.

This manual will be used for training of new employees and for reference. All auditors should become familiar within the manual's content and adhere to policies stated therein during the conduct of audit responsibilities.

This manual will be revised and updated by management as needed to ensure that information included in the manual is current and relevant. This manual is not intended to be an all-informative source of guidance, nor is it intended to be a substitute for the training, experience, and skills of the individual auditor.

Office of Audits Organizational Chart



Internal Audits Unit
Examine and evaluate the policies, procedures, and systems which are in place to ensure reliability, integrity, and compliance: -Internal/Financial Reviews -Findings/Points Follow Up Review -Contractor Capacity Reviews -HVUT Review -P-Card/Fuel Card Audits -Annual Risk Assessments -Operational/ Performance Audits (by request)

External Audits Unit	
(1)	(2)
Performs audits and special analyses to ensure costs charged to GDOT by consultants, contractors, and other entities are accurate, reasonable, and comply with federal and state regulations: - Consultant Interim Invoice Adjustments - Consultant Interim/Final Contract Reviews - Utility/Railroad Reviews	Works closely with the Procurement Office to provide accurate and timely contracting information for the A&E (consultant) firms: - CPA Workpaper Reviews - Overhead Evaluations - Overhead AUP - Accounting System Reviews - Pre-award Negotiation Assistance

Office of Audits Directory

Office of Audits Directory (by Title)

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Audit Engagement Manual

CHAPTER 1 –

STANDARDS AND CONDUCT

PROFESSIONAL STANDARDS AND CONDUCT

Auditing Standards

GDOT conducts its internal and external audits in accordance with *Government Auditing Standards.*

The professional standards to which this document refers are commonly referred to as generally accepted government auditing standards, also referred to as *Government Auditing Standards, (GAGAS) and the Yellow Book* provide a framework for conducting high quality government audits and attestation engagements. The *Yellow Book* is used by both federal government auditors and auditors of federal financial assistance under the Single Audit Act and other federal programs and agencies. Due to the relevance of *Government Auditing Standards*, the use of the *Yellow Book* is recommended for state and government auditors in audits of government organizations, programs, activities, and functions. The auditing standards contained in the *Yellow Book* are discussed in greater detail in subsequent chapters of this audit manual.

The *Yellow Book* contains professional requirements and related guidance in the form of explanatory material. Professional requirements are identified by specific language. The *Yellow Book* uses two categories of professional requirements that describe the degree of responsibility imposed on auditors and audit organizations. These requirements are:

<u>Unconditional requirements:</u>

Auditors and audit organizations are required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies. *GAGAS* uses “must” or “is required” to specify an unconditional requirement.

<u>Presumptively mandatory requirements:</u>

Auditors and audit organizations are also required to comply with a presumptively mandatory requirement in all cases in which the circumstances exist to which the presumptively mandatory requirement applies; however, in rare circumstances, auditors and audit organizations may depart from a presumptively mandatory requirement provided they document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. *GAGAS* uses “should” to specify presumptively mandatory requirements.

The *Yellow Book* prescribes the use of *GAGAS* for financial audits, attestation engagements, and performance audits (audit services).

Audit Services:

Financial Audits, Attestations and Performance Audits are concerned with providing reasonable assurance about whether an entity’s reported financial condition, results, and use of resources are presented fairly in accordance with recognized criteria. Reporting on financial audits performed in accordance with *GAGAS* also includes reports on internal control, compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes. Other types of financial audits can 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 can cover a broad range of financial or nonfinancial objectives and may provide different levels of assurance about the subject matter or assertion depending on the users’ needs. The three types of attestation engagements are as follows:

1. Examination:

Consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.

2. Review:

Consists of sufficient testing to provide moderate assurance regarding a subject matter or assertion thereon, typically in the form of negative assurance.

3. Agreed-Upon Procedures:

Consists of specific procedures performed on a subject matter.

The subject matter takes many forms and may include an entity’s internal control over financial reporting, an entity’s compliance with requirements of specific laws, regulations, policies, contracts, or grants; or determination that incurred final contract costs were supported with required evidence and in compliance with the contract terms

Performance audits are 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.

Performance audits that comply with *GAGAS* provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. The sufficiency and appropriateness of evidence needed and tests of evidence vary based on the audit objectives and conclusions. Performance audit objectives will vary widely and may include assessments of program effectiveness, economy and efficiency, internal control, compliance, and prospective analyses. A performance audit may have more than one overall objective.

Non-Audit Services

As *GAGAS* does not cover professional services other than audit or attestation engagements, the auditors must not report that these non- audit services were conducted in accordance with *GAGAS*. Non-audit services are tasks requested by management that directly support the entity's operations. Although *GAGAS* do not provide standards for conducting non-audit services, auditors providing such services need to ensure that their independence is not impaired. Auditors ensure that independence is not impaired through careful analysis of the service and whether providing the service is actually performing a function of management.

Auditor Independence

The first general government auditing standard is:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

The Non-Audit Services section of this document discusses independence relative to GDOT's non- attestation efforts. This section pertains to each auditor as an individual.

The *Yellow Book* provides extensive guidance for ensuring independence. To document each auditor's independence with respect to audit assignments, auditors must sign a Statement of Independence form for each GAGAS engagement. Each staff member is also required to notify the Audits Administrator of any potential conflicts of interest that may arise during the year.

Professional Conduct

The second general *Government Auditing Standard* requires GDOT Office of Audits staff to maintain a high level of professional conduct. Government Auditing Standards require auditors to be proficient, independent, and to exhibit professional judgment in conducting audits and preparing audit reports. The *Yellow Book* outlines the ethical principles in government auditing. The ethical principles that guide the work of government auditors are the public interest; integrity; objectivity; proper use of government information, resources, and position; and professional behavior.

Personnel policies are contained in the Personnel Policy Manual, which is maintained by the GDOT Office of Human Resources. Policies are available in an on-line database, which is accessible to all Office of Audits employees.

When interacting with auditees, GDOT employees are expected to:

1. Act with integrity, competence, and knowledge
2. Remain honest, objective, courteous, and respectful at all times, and
3. Treat auditees with the degree of professionalism with which they would like to be treated.

Confidentiality and Security of Working Papers and Audit Reports

Offices of Audits employees frequently have access to a variety of confidential information that is not available to the general GDOT employee population or the public. Government information, resources, or positions are to be used only for official purposes and not for the auditor's personal gain or in any manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. Accordingly, employees should treat information obtained with care to ensure its confidentiality is protected.

Document Retention and Release

The Office of Audits retains documentation in accordance with the Georgia Records Act (OCGA 50-18-90 et Seq.). All Office of Audits records are generally subject to public disclosure per the Open Records Act (50-18-70 thru 50-18-77).

CPE Requirements and Training

The third general *Government Auditing Standard* requires staff to possess adequate professional competence to complete their required tasks.

To help ensure compliance with this standard, Office of Audits is committed to hiring qualified staff and providing continuing professional education and on-the-job training for all employees. The Office of Audits has established education and experience requirements for all auditors and managers. All auditors must possess at least bachelor's degree in accounting or a related field prior to being accepted for employment. New employees work with experienced employees to receive on-the- job training. GDOT adheres to the *Yellow Book*'s continuing education requirements for all audit staff. Staff is ultimately responsible for ensuring that they receive the appropriate types and amounts of CPE; however, audit managers are responsible for monitoring staff CPE and researching continuing education opportunities to help ensure that staff attends the types of training that meet their individual needs. The Office of Audits maintains continuing professional education records to document compliance with standards. In addition, the Office of Audits works with staff possessing professional certifications (CPA, CGFM, CIA, CISA, CFE, etc.) as applicable to ensure training opportunities meet the continuing education requirements of the various certifications.

To further professional growth and to promote the exchange of ideas between the Office of Audits staff and other professionals, the Office of Audits encourages staff to join and actively participate in professional organizations. Employees who possess professional certifications demonstrate commitment to a qualified staff. During its recruiting process, the Office of Audits highly values and strongly considers persons who possess professional certifications related to the accounting and auditing fields and encourages existing staff to pursue professional certifications.

Quality Control and Assurance

The fourth general *Government Auditing Standard* requires each audit organization that performs audits or attestation engagements in accordance with *GAGAS* to:

a. 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 regulatoroy requirements and

b. have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years

The Office of Audits' system of quality control encompasses the entire office and emphasizes high quality work and professional qualifications. The Office of Audits' policies and procedures have been designed to provide reasonable assurance that the Office of Audits and its employees comply with professional standards and applicable legal and regulatory requirements. Each auditor also bears responsibility to perform his or her work in accordance with auditing standards.

The Office of Audits uses its audit manual, occasional policy memoranda, and infrequent emails to document policies and procedures affecting the operations of both the internal and external audit units and also to communicate those policies and procedures to its auditors. Work quality and compliance with *Yellow Book* requirements are stressed throughout the Manual. The Office of Audits strives to create a culture that recognizes quality as essential to success.

General Standards also require adequate supervision and an ongoing, periodic assessment of work completed on audits and attestation engagements. This monitoring must provide assurances of adherence to professional standards and legal and regulatory requirements, whether the quality control system has been appropriately designed and whether quality control policies and procedures are operating effectively and complied with in practice. The auditor in charge of the engagement should communicate with other members of the audit team regarding the auditee's susceptibility to fraud or misstatement. The discussion should emphasize the need to maintain a questioning mind and to exercise professional skepticism during the engagement. Managers should inform all auditors of the auditor's responsibilities and the objectives of engagement and procedures they are to perform, as well as any matters that may affect the timing, nature, and extent of procedures to be performed.

Monitoring activities consist of the audit lead reviewing of all working papers and report drafts prior to issuance of the report. This review is documented through signoff on audit working papers.

The Office of Audits also performs an analysis and summary of its monitoring procedures on an annual basis. The analysis covers the preceding fiscal year and identifies any systemic issues needing improvements, with recommendations for corrective action as necessary.

Peer Review

Audit organizations performing audits and attestation engagements in accordance with *GAGAS* must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.

The Office of Audits participates in the AASHTO Peer Review program, whereby member states send auditors to conduct peer reviews at another state's request. AASHTO has established programs and procedures for conducting peer reviews. AASHTO peer reviews provide an opportunity to enhance audit quality and confidence in the audit function by providing an independent assessment of the adequacy of the system of quality control and compliance with policies and procedures. The Office of Audits requests a peer review every three years to comply with *GAGAS* requirements.

CHAPTER 2 - GENERAL ENGAGEMENT APPROACH

INTRODUCTION

This chapter summarizes the Office of Audits' internal and external audit processes. It addresses development of the Office of Audits' annual audit plans, scheduling of engagements, assignment of audit staff to engagements, preparation for the engagements, fieldwork performance, and report draft preparation.

AUDIT PLANS

The magnitude of programs and functions for which GDOT is responsible make the determination of which audits to perform critical. Proper planning ensures the Office of Audits uses its resources to provide the maximum benefit to the department.

Audit Work Plan

The magnitude of programs and functions for which GDOT is responsible makes the determination of which audits to perform critical. Proper planning ensures the Office of Audits uses its resources to provide the maximum benefit to the department.

Internal Audit

In our effort to obtain management's buy-in on how we can provide value to GDOT, and move towards a more risk-based approach to the selection of audits performed by our Internal Audit, we have significantly revised our annual Audit Work Plan into a four-step process:

(1) Define our audit universe into key offices and functions.

(2) Conduct interviews via risk assessment questionnaires with Executive Management, Division Heads, Office Heads, and District Engineer. Document the interviews which focus on the managers identifying their major risks, areas of concern and possible audit topics. The risk questionnaires are limited to eight risk factors (Operational Impact, Financial Impact, Regulation/Compliance Impact, Complexity of Operations, Policies and Procedures, Performance Measures/Goals, Degree of Change/Stability, Theft/Fraud).

(3) Analyze the information obtained from management and GDOT's systems, develop a risk matrix, and prepared a draft plan for consultation with the Commissioner and executive management. This draft plan takes into account the risk assessment responses, risk factor ranking, and prior year audits requiring follow up.

(4) Consult with the Commissioner and executive management, obtain a list of audit priorities from the Commissioner and executive management, make adjustments to the audit work plan as necessary, and finalize the Audit Work Plan based on the available number of audit staff hours.

External Audit

The external audit unit develops its annual plan using audit deadlines found in the contracts subject to audit. The actual audits selected and scope of audit activities is determined as the result of risk and materiality analyses. Consultants are selected on a three year cycle to ensure coverage. Additionally, the audit work plan planning process identifies and ensures that contracts are audited prior to the "audit by" dates.

External Audit periodically surveys the inventory of completed and expired utility contracts identifies contracts for audit based on risk factors such as an entity's audit history, total dollars outstanding, and age of projects.

The program management area of External audit reviews the consultants internal control questionnaires (ICQs) and the Indirect Cost Rate reports for firms that exceeded the $250,000 threshold. For the firms that fell below the $250,000 threshold, Unaudited Overhead Schedule reviews are performed. Other reviews and audits are performed as requested.

SCHEDULING

Scheduling is a function of many factors such as availability of staff, presence of external auditors or other internal auditors working in the same general area, and relative importance of a given audit compared to other audits in the audit plan.

For example, engagements with a higher overall degree of risk would typically be scheduled earlier in the audit plan year to increase the likelihood that these significant engagements will be completed timely. Requests from a department or division within GDOT for a particular engagement could accelerate an engagement within the annual audit plan. Audits of functions largely performed by a particular functional unit within the department might be delayed or accelerated if other auditors are, or will soon be, working in the same general operations area. Managers should consider such circumstances in an attempt to minimize the disruption of auditee operations. Similarly, some engagements may be scheduled to avoid an auditee's busy time. When it is desirable to assign an engagement to a particular auditor because of experience or a particular expertise, the engagement may be scheduled to coincide with the availability of that auditor.

Engagement scheduling is a matter of professional judgment and should be based on an evaluation of factors such as those discussed above.

AUDITOR ASSIGNMENTS

The lead auditor/supervisor determines staff assignments based on considerations that might include staff experience, independence, interest expressed by staff, and the development of staff competencies.

Auditor independence is of primary importance in assigning staff to engagements. Supervisors are required to review conflict of interest documentation for each auditor prior to assigning them to an engagement. This procedure helps ensure staff remains independent in both fact and appearance with respect to the engagements.

The interests of staff might also be considered when staff assignments are made. Supervisors and the auditor-in-charge can request feedback from staff regarding engagements the staff would like to perform.

As is consistent with competencies required of each supervisor, supervisors should continuously endeavor to develop their staff's competencies by way of assignment decisions, when practical and possible. Some auditors receive specific training in areas such as railroads, fraud, federal aid requirements, and construction projects or construction accounting. This training is not necessarily provided to all staff due to its cost, technical nature, or limited applicability. A specially trained auditor can serve as the Office of Audits' subject matter expert in an area, and can serve mentor for staff that are not as knowledgeable about certain subject areas. Audits of a recurring nature should sometimes be rotated among audit staff to gain a fresh perspective and to ensure that knowledge is not lost when staff departs the Office of Audits.

In all cases, staff assignments should be made with a view toward effectively and efficiently accomplishing engagements.

ENGAGEMENT PREPARATION

Planning

Both the generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and the *Government Auditing Standards* promulgated by the Comptroller General of the United States require the auditor to adequately plan the engagements. Proper planning is essential to ensure that engagements smoothly and effectively conducted and engagement objectives are efficiently met. The planning component applies to all audits and attestation engagements performed under *Government Auditing Standards.*

Although engagement planning is an ongoing process, pre-engagement planning consists of specific procedures that should be completed to develop the engagement plan. These procedures can involve limited analytical procedures, review of audit history, permanent file contents such as historical internal control and process reviews, and brainstorming activities. These preliminary steps should result in an engagement plan containing key decisions made about the engagement such as the objectives, scope, and planned methodology. Engagement plans should be discussed with, and approved by the supervisor/auditor in charge of the engagement.

Communication

Auditor communication during planning is required by the *Yellow Book* for both financial and performance audits. Among the first steps taken in conducting an audit is to contact the auditee's management and inform them of the upcoming audit. The initial contact may be made by memorandum, e-mail, or phone call. External staff generally contacts the auditee by phone, followed by a letter or e-mail when site visits are scheduled. For desk review engagements, auditors make contact by phone or e-mail. In many cases, the initial contact is usually followed by a meeting between auditee management and the audit staff. This meeting is referred to as an entrance conference. The entrance conference provides a means for the auditee and the auditors to become acquainted and to promote a cooperative and productive working relationship. One of the most important functions of the entrance conference is to explain the scope and objectives of the audit. Other topics that may be discussed during the entrance conference include the starting date of the audit and estimated duration of fieldwork, special problems the auditee may wish the auditor to consider, working arrangements, and any specific concerns the auditee may have. After the entrance conference, the auditor should prepare a memo documenting the entrance conference date, participants' names, and topics discussed.

Communications to Those Charged with Governance- Financial Audits

Per AU 380, the principal purposes of communication with those charged with governance are to:

1. Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the scope and timing of the audit.

2. Obtain from those charged with governance information relevant to the audit.

3. Provide those charged with governance with timely observations arising from the audit that is relevant to their responsibilities in overseeing the financial reporting process.

For financial audits, AU 380 specifies that the following must be communicated to those charged with governance:

1. The auditor's responsibilities under generally accepted auditing standards

2. An overview of the planned scope and timing of the audit

3. Significant findings from the audit

When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

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 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, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is likely to have a material effect on the financial statements 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.

The communication requirements of the *Yellow Book* and AU 380 are generally satisfied by the engagement letter and the auditor's report.

Communications to Those Charged with Governance- Performance Audits

GAGAS states that auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors' ability to obtain sufficient, appropriate evidence to address the audit objectives, such as when the auditors plan to conduct unannounced cash counts or perform procedures related to indications of fraud. Auditors should communicate with the following parties, as applicable:

1. Management of the audited entity, including those with sufficient authority and responsibility to implement corrective action in the program or activity being audited.

2. Those charged with governance.

3. The individuals contracting for or requesting audit services, such as contracting officials or grantees.

4. The cognizant legislative committee, when auditors perform the audit pursuant to a law or regulation or they conduct the work for the legislative committee that has oversight of the audited entity.

If an audit is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting for or requesting the audit and other appropriate officials will depend on the facts and circumstances and, therefore, is a matter of professional judgment.

The communication requirements of the *Yellow Book* are generally satisfied by the engagement letter and the auditor's report.

Communications to Those Charged with Governance- Attestation Engagements

For attestation engagements, AT 101 states that the practitioner should obtain written acknowledgment or other evidence of the responsible party's responsibility for the subject matter, or the written assertion, as it relates to the objective of the engagement. The responsible party can acknowledge that responsibility in a number of ways, for example, in an engagement letter, a representation letter, or the presentation of the subject matter, including the notes thereto, or the written assertion. If the practitioner is not able to directly obtain written acknowledgment, the practitioner should obtain other evidence of the responsible party's responsibility for the subject matter (for example, by reference to legislation, a regulation, or a contract).

Also, the practitioner should establish an understanding with the client regarding the services to be performed for each engagement. The understanding should include the objectives of the engagement, management's responsibilities, the practitioner's responsibilities, and limitations of the engagement. The practitioner should document the understanding in the working papers, preferably through a written communication with the client. If the practitioner believes an understanding with the client has not been established, he or she should decline to accept or perform the engagement.

When performing GAGAS examination engagements, the *Yellow Book* states that auditors should report instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the subject matter or an assertion about the subject matter and any other instances that warrant the attention of those charged with governance.

The communication requirements of the *Yellow Book* and AT 101 are generally satisfied by the engagement letter and the auditor's report.

FIELDWORK

Auditing Attitude

Engagements should be performed with an attitude of professional skepticism. AU Section

230.07-.09 states:

Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.

Gathering and objectively evaluating audit evidence requires the auditor to consider the competency and sufficiency of the evidence. Since evidence is gathered and evaluated throughout the audit, professional skepticism should be exercised throughout the audit process.

The auditor neither assumes that management is dishonest nor assumes unquestioned honesty. In exercising professional skepticism, the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.

GAGAS reiterates that the auditor is to maintain an independent attitude and remain alert to potential significant problems. An appropriate attitude, when performing engagement work, allows the auditor to make unbiased conclusions, judgments, and recommendations.

Although auditors need to maintain a level of professional skepticism and independence when performing their engagement work, they need to remember to be courteous and considerate to the auditee. In the absence of specific evidence to the contrary, auditors should not begin an engagement with the expectation of finding significant problems or illegal acts. Auditors need to obtain sufficient, competent, and relevant evidence to meet the objectives of the engagement, to use in unbiased evaluations and to support the auditor's findings and conclusions.

Documentation

GAGAS requires auditors to obtain sufficient, appropriate evidence in the form of working papers to support engagement findings and conclusions. Working papers should be in sufficient detail to enable an experienced auditor, having no prior experience with the audit, to determine the evidence that supports any significant conclusions and findings. The working papers should provide adequate support for any information presented in the final audit report.

Evidence, in the form of working papers, includes four different types: physical evidence, documentary evidence, testimonial evidence, and analytical evidence. Physical evidence consists of evidence obtained by the auditor through direct inspection or observation and documented through a narrative format or by physical samples. Documentary evidence includes documents created by the auditee such as accounting records, letters, contracts, invoices, and memoranda. Testimonial evidence is information gathered through inquiries, questionnaires, and interviews. Analytical evidence comprises auditor-prepared computations and comparisons.

Evidence should be sufficient, competent, and relevant. The following presumptions are helpful in judging the competence of evidence gathered during the audit. However, these presumptions alone are not sufficient to determine competence.

a. Evidence obtained from a third party is more credible than evidence obtained from the auditee.

b. Evidence obtained from an accounting or other system governed by effective controls is more competent than that obtained from a system where controls are weak or nonexistent.

c. Evidence obtained directly by the auditor by physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly.

d. Original documents provide more compelling evidence than copies.

e. Testimonial evidence is more credible if obtained under circumstances where the person may speak freely.

f. Testimonial evidence obtained from an unbiased, knowledgeable individual is more competent than evidence obtained from a person who is biased or has only limited knowledge about a particular area or procedure.

The auditor's approach to determining the sufficiency, competence, and relevance of evidence depends on the source of the information that constitutes the evidence. Information sources include original data gathered by auditors and existing data gathered by either the auditee or a third party.

As noted earlier, data gathered directly by auditors provides more competent evidence. Among the methods used for gathering data are questionnaires, structured interviews, direct observations, and computations. The design of these methods and the skill of the audit staff in applying these methods are the keys to ensuring the data constitutes sufficient, competent, and relevant evidence.

Auditors often use data gathered by the auditee as part of their evidence. Auditors may determine the validity and reliability of the data by direct tests of the data. Auditors may also reduce direct testing of the data if they test the effectiveness of the entity's controls over the validity and reliability of the data, as long as these tests support the conclusion that the controls are effective.

If the tests of data disclose errors in the data or if the auditors are unable to obtain sufficient, competent, and relevant evidence about the reliability of the data, then it may be necessary to seek evidence from other sources or redefine the audit's objectives to eliminate the need to use the data. If the data is used, the auditor should clearly indicate in the audit report the data's limitations, and refrain from making unwarranted conclusions or recommendations.

Auditors may also use data gathered by third parties. In some cases, this data might be audited by others or the auditor might be able to audit the data. In most cases, however, it will not be practical to obtain evidence of the data's validity and reliability. How the use of unaudited third-party data will affect the audit report depends on the data's significance to the auditor's findings. Use of this type of data must be carefully scrutinized and validated to ensure its inclusion in any audit report is appropriate.

Auditors often use data from computer-based systems. If this data is significant to the auditor's findings, the auditor must obtain evidence that the data is valid and reliable. In some cases, the auditor will be able to rely on the work of others who have already tested the computer systems. If the systems have not been tested, the auditors will need to develop direct tests of the data. Again, these direct tests can be reduced if a test of the effectiveness of general and application controls over computer-processed data indicates controls are effective. If it is determined that the system (manual or electronic) is not reliable, either because testing indicates that it is not reliable or because GDOT has not monitored and determined that the system is reliable, the auditor will report a related significant deficiency in the audit report.

Preparation of the Working Papers:

Working papers should:

1) provide support for the engagement report.

2) aid in conducting and supervising the engagement.

3) allow others to determine the quality of the engagement work performed.

This third purpose is important because audits of governmental bodies are often subjected to review by other auditors and by oversight officials. *GAGAS* requires engagement documentation to be appropriately detailed to provide a clear understanding of its purpose and source and the conclusions the auditors reached, and engagement documentation should be appropriately organized to provide a clear link to the findings, conclusions, and recommendations contained in the engagement report. In order to meet *GAGAS* requirements, working papers should clearly depict the following:

a. The nature, timing and extent of auditing procedures performed; and the objectives, scope and methodology, including any sampling criteria used.

b. The auditors' determination that certain standards do not apply or that an applicable standard was not followed the reasons therefore and the known effect that not following the applicable standard had, or could have had, on the engagement.

c. The work performed to support significant judgments and conclusions, including descriptions of transactions and records examined.

d. The accounting records agree or reconcile with audited financial statements or other audited information.

e. The auditors' consideration that the planned engagement procedures are designed to achieve engagement objectives when evidential matter obtained is highly dependent on computerized information systems and is material to the objective of the engagement and that the auditors are not relying on the effectiveness of internal control over those computerized systems that produced the information. The engagement documentation should specifically address the rationale for determining the nature, timing, and extent of planned engagement procedures; the kinds and competence of available evidential matter produced outside a computerized information system and/or plans for direct testing of data produced from a computerized information system; and the effect on the engagement report if evidential matter to be gathered does not afford a reasonable basis for achieving the objectives of the engagement.

f. Evidence of supervisory review of the work performed.

In addition to the required elements noted above, working papers should generally include headings, sources, purposes, conclusions, and working paper indexes. These notations convey meaningful information and aid in the supervisory review of working papers. To indicate completion of a working paper, the auditor should initial and date the working paper directly beneath the index reference.

Working papers should also be neat, legible, relevant, and organized logically. Conclusions and recommendations should be clear and adequately supported by evidence documented in the working papers. Financial and other information presented in the audit report should be cross-referenced to the applicable working papers to ensure all report draft data is accurate and adequately supported by documentation in the working papers. Working papers should clearly indicate financial information reported has been reconciled or agreed to accounting records. It may be helpful for the auditor to perform a self-review of each working paper after the completion of an audit program to ensure it contains all the necessary elements and presents audit evidence in a clear and logical manner. Unnecessary working papers, including extraneous portions of pdf and other documents, should not be included as working papers.

REPRESENTATIONS

Auditors should obtain written representations from auditees regarding the subject matter of each engagement. These representations can be in the form of signed contracts, attestations on information submitted to GDOT by non-GDOT auditees, or traditional management representation letters.

When an auditee's representation contradicts evidence obtained by the auditor, the auditor should follow up to determine the causes and consider the effects on the reliability of the representation(s) made by the auditee. The auditor should also consider whether such an inconsistency in an auditee's representation has implications for other areas of the engagement.

DRAFT REPORTS

The end product of an engagement is an Independent Auditor's Report (report). The purpose of a report is to persuade management to take Office of Audits' recommended actions, to determine adjustments to project invoices reported to GDOT, or to document noncompliance with applicable project agreements or federal and state requirements. This section will discuss the process of creating a report; related standards; suggestions for writing effective engagement reports; and recommendation follow up related to internal audit reports.

Process

Report preparation should be foremost in the auditor's mind throughout the audit process. As engagement evidence is gathered, auditors and supervisors must continuously evaluate if issues merit comment in the report. Where managers determine that potential issues do merit comment in the report as a finding, auditors must ensure the working papers contain sufficient evidence to support the finding. The likelihood that engagement evidence will be sufficient is increased when the auditor is focused on the final work product, i.e., the report. Auditors can gauge sufficiency by asking themselves if the engagement evidence completely documents the condition, the effect, the criteria on which the auditor basis her/his conclusion, the cause of the condition, and how the condition can be corrected.

It is important to organize and document engagement evidence in such a manner that it is not lost or that auditors and reviewers fail to recognize its significance. The report should be prepared in conjunction with the engagement fieldwork. This approach provides several advantages. It ensures the report is drafted while the information is still fresh in the mind of the auditor and the issues are most clear. It also makes delivery of the report timely because the report is virtually complete when fieldwork is concluded. This approach requires communication between the staff auditor and the supervisor to ensure they are in agreement as to which deficiencies will be included in the written report, and which, if any, will be handled informally, either verbally or in an informal memo. When the supervisor and staff agree in advance on which deficiencies should be written, the audit staff can avoid spending time drafting findings for conditions that the audit manager believes do not merit inclusion in the audit report.

Similarly, it is important that auditors thoroughly discuss potential findings with the auditee as the work is performed to ensure the accuracy of the potential finding and the feasibility of potential recommendations. Waiting to discuss findings with the auditee until the end of the audit will waste calendar time and audit hours if the auditee provides additional information that causes the auditor to a) make significant changes to the draft finding, or b) delete a finding.

The auditor who performed the work should draft the potential finding and, in many cases, the draft report. This is the person most familiar with the work, and, therefore, the individual best able to provide the information that is necessary to clearly present the condition to management. In the case of inexperienced staff, this approach also provides training in technical writing. Sections of the report drafted by audit staff are reviewed and edited, as necessary, by the in-charge auditor prior to submitting the report to the appropriate supervisor. Regardless of the experience of the audit staff, however, the supervisor is responsible for judging what findings belong in the report, persuading management to take action, and for processing her/his audit report through the Office of Audits to the auditee.

Each auditor is primarily responsible for the accuracy, thoroughness and timeliness of the audit report. This is a crucial role in the audit process, as the Office of Audits is judged largely on the quality of its reports. When the auditor submits the draft report to the supervisor, the report should be thoroughly cross-referenced to the working papers and accompanied by a routing sheet. Attention is focused on tracking the progress of the reports, assigning accountability for changes made to the draft, documenting the review and quality assurance processes, and documenting recipients of the final report. When an auditor submits the draft report to the supervisor, the supervisor becomes primarily responsible for ensuring the timeliness and continued quality of the report. When the supervisor is satisfied with the report draft, the supervisor submits the report to the Assistant Office Head. The Assistant Office Head’s review looks for errors or inconsistencies which may not be apparent to staff or the supervisor, who have been closely involved with the audit work and the report throughout the entire engagement.

Exit Conferences and Responses

After reports have been through the Office of Audits' review process, the Office of Audits provides the auditee with an exit draft for the auditee's review and comment. Exit drafts must always be clearly marked as a draft report because it is subject to change. It is important that the Office of Audits convey to the auditees the confidential and preliminary nature of the document; this document becomes the basis for the exit conference.

The Office of Audits conducts the exit conference to accomplish the following:

1. Discuss the report with the auditee.

2. Ensure the report is factually correct ensure that any adjustments are understood.

3. Discuss recommendations with the auditee to determine their feasibility.

4. If necessary, persuade the auditee that the Office of Audits' recommendations should be implemented.

Auditors should keep auditees continuously apprised of relevant issues and potential findings throughout fieldwork in order to minimize disagreements and facilitate effective exit conferences.

Despite the Office of Audits' best efforts to fully inform auditees of findings and build consensus throughout audit fieldwork, auditees might still disagree with audit findings during an exit conference. Facts supporting the audit' findings, however, should never be in dispute. The Audit Office should consider changes to an exit draft if the auditee presents information at the exit conference making report information inaccurate or if the auditee points out that the report might contain inadvertent tone. It should be the Audit Office's goal to keep such changes to a minimum by thoroughly discussing findings during fieldwork with the auditee, including the most appropriate auditee employee (manager, division administrator, bureau head, or chief). When the Office of Audits finds out that that a report is factually incorrect (avoidably) during an exit conference, it can be damaging to the Audit Office's credibility, and might be detrimental to the Office's effectiveness.

The exit conference should be attended by the audit staff who worked on the engagement, the supervisor, and applicable members of the auditee's management and staff. Depending on the significance of the engagement, others, such as the Assistant Office Head, the Office Head, or supervisors of auditee management might sometimes attend the exit conference.

After the exit conference is concluded, the staff should document the pertinent details, assertions, statements, and results in the working papers. The documentation should include the date and location of the meeting, the Office of Audits representatives, auditee representatives, major points of discussion, and any other relevant information such as the general attitude of those present, any items not discussed and the auditee's concurrence or non-concurrence with the findings.

Report Distribution

The Office of Audits should distribute reports to those charged with governance, to appropriate entity officials, and to appropriate oversight bodies. 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 engagement findings and recommendations, and to others authorized to receive such reports.

Occasionally, the Office of Audits communicates significant engagement findings by means other than the report. Interim reporting is appropriate in situations such as when fieldwork is protracted and/or it is appropriate to communicate information so the auditee can implement corrective action timely. Also, memoranda may be used to communicate small or immaterial findings directly to the auditee. Such memoranda allow the auditee to correct minor issues without involving senior management.

REPORTING STANDARDS

GAGAS contains reporting standards for financial audits, performance audits, and attestation engagements, incorporating AICPA reporting standards and adding supplemental reporting standards for financial statement audits and attestation engagements.

Supplemental Standards for Financial and Attestation Engagements

Standards Compliance

The first supplemental reporting standard applicable to both financial and attestation engagements requires that audit reports should state the audit was conducted in accordance with generally accepted government auditing standards. Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS audits and attestation engagements, as appropriate:

A. Unmodified GAGAS compliance statement – Auditors should include an unmodified GAGAS compliance statement in the audit report when they have (1) followed all applicable unconditional and presumptively mandatory GAGAS requirements, or (2) have followed all unconditional requirements and documented justification for any departures from applicable presumptively mandatory requirements and have achieved the objectives of those requirements through other means.

B. Modified GAGAS compliance statement – Stating either that (1) the auditor performed the audit or attestation engagement in accordance with GAGAS except for specific applicable requirements that were not followed, or (2) because of the significance of the departure(s) from the requirements, the auditor was unable to and did not perform the audit or attestation engagement in accordance with GAGAS .

Situations where auditors use modified compliance statements include scope limitations, such as restrictions on access to records, government officials, or other individuals needed to conduct the audit. When auditors use a modified GAGAS statement, they should disclose in the report the applicable requirement(s) not followed the reasons for not following the requirements (s) and how not following the requirements affected or could have affected the engagement and the assurance provided.

When auditors do not comply with any applicable requirements, they should (1) assess the significance of the noncompliance to the audit objectives, (2) document the assessment, along with their reasons for not following the requirement, and (3) determine the type of GAGAS compliance statement. The auditors' determination will depend on the significance of the requirements not followed in relation to the audit objectives.

Testing of Control and Compliance

When providing an opinion or disclaimer of opinion, the second supplemental reporting standard requires the report to either describe the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements and present the results of those tests or an opinion, or refer to separate report(s) containing that information. The report on the scope of compliance and internal control work should include whether or not the tests performed provided sufficient evidence to support an opinion on compliance or internal control, and whether the auditor is rendering such an opinion.

Significant Deficiencies in Internal Control

The third supplemental reporting standard requires the auditor to report, as applicable to the objectives of the engagement and based upon the work performed, significant deficiencies in internal control, identifying those considered to be material weaknesses; all instances of fraud and illegal acts unless clearly inconsequential, and significant violations of provisions of contracts or grant agreements and abuse. For attestation engagements, auditors should report, as applicable to the objectives of the engagement, and based upon the work performed, significant deficiencies in internal control, identifying those considered to be material weaknesses, all instances of fraud and illegal acts unless inconsequential, and violations of provisions of contracts or grant agreements and abuse that could have a material effect on the subject matter of the engagement. In some circumstances, auditors should report fraud, illegal acts, and violations of provisions of contracts or grant agreements, and abuse directly to parties of the audited entity. Internal control deficiencies that are considered significant and material weaknesses should be reported in accordance with AICPA standards. Internal control deficiencies that are not reportable conditions should be reported to the auditee, preferably in writing. All communications with the auditee regarding internal control deficiencies should be documented in the working papers.

The auditor should address the effect fraud or illegal acts may have on the report and adequately inform those charged with governance. When, based on their audit work, auditors conclude that fraud or an illegal act occurred or likely occurred, the circumstances should be reported. Clearly inconsequential information need not be reported. Other noncompliance that is material to the financial statements should be reported. Reporting of material fraud, illegal acts, or other noncompliance should be placed in proper perspective, to give the reader a basis for judging the seriousness of the conditions. When auditors detect immaterial fraud, illegal acts, or other noncompliance, such findings should be communicated to the auditee, preferably in writing. All communications with the auditee regarding fraud, illegal acts, and other noncompliance, should be documented in the working papers.

Views of Responsible Officials:

The fourth supplemental reporting standard common to both financial audits and attestation engagements requires the auditor to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions, if the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse. Comments should be fairly and objectively evaluated and recognized, as appropriate, in the final report. When the auditee's comments oppose the report's findings, conclusions, or recommendations, and are not, in the auditor's opinion, valid, or when planned corrective actions do not adequately address the auditor's recommendations, the auditor should state their reasons for disagreeing with the comments or planned corrective actions. The auditor's disagreement should be stated in a fair and objective manner. 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.

Omitted Information:

The fifth supplemental reporting standard for both financial audits and attestation engagements is that if information is prohibited from general disclosure, the report should state the nature of the omitted information and the requirement that makes the omission necessary. Auditors should ensure there is a valid requirement for the omission and consult with legal counsel when appropriate.

Distribution:

The sixth supplemental reporting standard states audit organizations should submit written audit reports to appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless prohibited by legal restrictions. Copies should be sent to officials with oversight authority, those responsible for acting on audit findings and others authorized to receive reports. Unless restricted by law, copies should be made available for public inspection.

Supplemental Standards for Performance Audits

Audit Results

The first reporting standard for performance audits states auditors should prepare audit reports communicating the results of each audit. The form of the audit report should be appropriate for its intended use, but should be written or in some other retrievable form. Written audit reports provide better accountability in the governmental environment, make audit results less susceptible to misunderstanding, and facilitate follow-up to determine if corrective action has been taken. In addition to a more formal audit report, audit reports may be presented in slides or electronic media, such as video or compact discs. Auditors should use their professional judgment in determining the form of the audit report. If an audit is terminated prior to completion, the auditors should communicate that fact to the auditee and other appropriate officials, preferably in writing. The results of work performed and the reason the audit was terminated should be documented in a memorandum to the working papers. If after a report is issued, the auditors discover that they did not have sufficient appropriate evidence to support the reported findings or conclusions, they should communicate with those charged with governance, the appropriate officials of the audited entity, and the appropriate officials of the organizations requiring or arranging for the audits, so that they do not continue to rely on the findings or conclusions that were not supported. The auditors should then determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions.

Report Contents

The second reporting standard for performance audits addresses report contents. A number of elements are required by this standard. First, the report should contain the objectives, scope, and methodology. Readers need this information to understand the report's purpose, to judge the merit of the work and what is reported, and to recognize any significant limitations under which the auditors were required to conduct the audit.

When reporting the audit objectives, the auditor explains why the audit was conducted and what the report is to accomplish. Where the reader might infer broader objectives than those covered by the audit, the auditor may state why certain objectives were not addressed.

The audit scope describes the depth and coverage of the work performed, as well as any limitations, to achieve the audit objectives. As applicable, the report should explain the relationship between what was audited and the universe from which audited items were selected;

organizations, locations, and the period covered by the audit; the kinds and sources of audit evidence; and any problems associated with the quality of the audit evidence. Significant restrictions imposed on the auditor by data limitations or scope impairments should be reported as should any limitations imposed by time or resource constraints.

The report's methodology explains the techniques used to gather and analyze evidence in sufficient detail to help readers understand how the audit objectives were addressed. Any significant assumptions made by the auditors should be disclosed. Criteria used to judge performance and sampling design should be discussed.

The content reporting standard also addresses audit results, and requires auditors report significant audit findings and the auditor's conclusions, when applicable. The significant findings developed in response to the audit objectives should be included in the audit report. Lesser findings should be communicated separately, preferably in writing. Lesser findings that are communicated to top management should be referred to in the audit report, and all communications of audit findings should be documented in the working papers. When findings are communicated verbally, the auditor should document in the working papers the name and title of the individual with whom the finding was discussed, the date of the discussion and the individual's intended action.

The second element requires audit findings to include sufficient, appropriate evidence to provide an adequate understanding of the situation, and provide convincing but fair information, so that the finding is presented in the proper perspective. Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if the evidence is significant to the findings and conclusions and such disclosure is necessary to avoid misleading the report users about the findings and conclusions. Background information should be included in the report as necessary to ensure the reader understands of the findings. Findings will typically include criteria, condition, cause, and effect. When called for by the audit objectives, the report should state the auditors' conclusions, which are the logical inferences about the audit's subject matter, based on the report findings.

The third element of the content reporting standard requires auditors to report the scope of the work performed on internal controls and any significant deficiencies found during the audit. Reporting depends on the significance of deficiencies found and the relationship of the deficiencies to audit objectives. If the objective of the audit was to audit internal controls, the controls reviewed should be clearly presented in the audit objectives, scope, and methodology, and deficiencies noted identified in the audit report. When internal control weaknesses are determined to be a cause of deficient performance, the weaknesses are cited as a cause in the audit finding. Communication of inconsequential deficiencies should be documented.

The fourth element of the content reporting standard requires the auditor to report all relevant information in writing when they conclude fraud, illegal acts, and significant violations of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred. Findings should be placed in perspective to provide readers a basis for determining the prevalence and consequences of the fraud, illegal act, significant violation or abuse. Relating the number of instances of noncompliance to the population of items and quantifying the dollar value of noncompliance can accomplish this.

The fifth element of the content reporting standard requires auditors, in certain circumstances, to report illegal acts directly to parties outside the auditee; however, internal auditors auditing within the entity that employs them do not have a duty to report outside the entity unless required by law, rule, regulation, or policy.

The sixth element of the content reporting standard requires an auditor to report conclusions when called for by the audit objectives and the results of the audit. Conclusions are logical inferences about the program based on the auditor's findings and should represent more than just a summary of the findings. Conclusions should be clearly stated, not implied. Conclusions are stronger if they set up the report's recommendations and convince the knowledgeable user of the report that action is necessary.

The seventh element of the content reporting standard addresses audit recommendations and requires auditors to report recommendations for actions to correct the problem areas and improve operations. These recommendations should address areas such as potential improvement in operations and performance, compliance with laws and regulations, and improvement in management controls. Uncorrected significant findings from prior reports that affect the objectives of the current audit should also be reported. Recommendations should be constructive, so as to encourage improvement and, therefore, should be directed at correcting the cause of the problem. Recommendations should be directed to those individuals who have the authority to act. They should be action oriented and specific, feasible, practical, and cost effective. Recommendations that fail to meet these criteria are of little use to management.

The eighth element of the content reporting standard requires the auditor to include a statement that the audit was conducted in accordance with *GAGAS*. This statement refers to all applicable government auditing standards. When the auditor did not follow an applicable standard, the statement should be modified and the auditor should report a scope limitation in the scope section of the report, indicating the standard that was not followed and the reason therefore, and how not following the standard affected the results of the audit.

The ninth element of the content reporting standard requires the auditor to report the views of responsible officials and corrective action planned. This helps ensure the report is fair, complete, and objective, and allows the reader to see what management thinks of the findings and how management intends to correct deficiencies. Auditors should normally request the views of responsible officials be submitted in writing. Advance comments from the auditee should be considered for inclusion in the report, but a promise of corrective action should not be used as justification for deleting a finding from the report. Comments from management which disagree with the report's findings, but which are not, in the auditor's opinion, valid, may necessitate an auditor's comment in the report. Valid comments that dispute the audit report content should be used as a basis to modify the report. If an 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.

The tenth and final element of the report content reporting standard requires the auditor to report the nature of any information omitted from the report, and the reason for the omission. This might include information which federal, state, or local law prohibits from disclosure.

Distribution

The third reporting standard for performance audits addresses report distribution and requires the audit organization to submit written reports to appropriate auditee officials and appropriate officials of organizations requiring or arranging the audit, including external funding organizations, unless such distribution is prohibited. Copies should be sent to those with oversight authority or who are responsible for acting on findings and recommendations and to others authorized to receive reports. Copies should be available for public inspection except when restricted by law or regulation. Internal auditors typically follow statutory distribution requirements or distribution arrangements specified by their own agency.

TIPS FOR EFFECTIVE WRITING

Many auditors prefer performing auditing procedures to drafting the audit report; however, if the report is not clear, well organized, and persuasive, the audit work itself may be wasted. To improve the quality of the report, auditors should first prepare an outline. The auditor can begin by listing all findings and recommendations to be included in the report, and then arranging them in a logical sequence. Similar items should be grouped together, and more significant items should be listed first. The auditor should then ensure that the recommendations address the correction of the conditions noted in the findings, and identify the audit evidence that will be used to support the condition.

The next step is to prepare a first draft of the findings. Everything that is included in the draft must be supported by the working papers. To ensure the draft is adequately supported, information in the report should be referenced to the applicable working papers in the margins of the draft. After the first draft is complete, it is often helpful to put it aside for a day or two, then reread it and make any changes that appear necessary before passing the report on to the supervisor.

A good finding contains five elements: condition, criteria, cause, effect, and the recommendation.

The condition answers the question "What happened?" The auditor describes the situation that exists, as determined by the auditor, in the course of conducting the audit.

The criteria answer the question "What should be?" Criteria provide the standards, guidelines, or expectations against which the auditee's performance is measured. Criteria include legal provisions, such as statutes, codes of state and federal regulations, and the terms of contract and grant agreements; the department's written policies and procedures; budgets; management's goals and objectives; internal controls or management control standards; business or industry standards; opinions of experts or specialists; and prudent business practices or common sense.

The cause answers the question "Why did it happen?", and is the reason for the difference between the condition and the criteria. Potential causes include inadequate training, poor communication, unfamiliarity with requirements, insufficient resources, unintentional errors, negligence or carelessness, a decision or management directive to deviate from requirements, lack of proper supervision, poor delegations of authority, inadequate or obsolete guidelines, and a lack of management controls.

The effect answers the question "What is the difference?" and presents the actual or potential result of the condition. The effect could be expressed in dollars or degree of noncompliance. Other effects are the uneconomical or inefficient use of resources, loss or theft of assets, loss of income or federal funding, inaccurate records which are used as a basis for decision making, lack of adequate control over employees or resources, and low morale.

The recommendation answers the question "What should be done?" Recommendations should be clear and as detailed as possible. Simply telling the auditee management that controls should be improved is not particularly helpful to the auditee. The auditee may already know the system needs improvement, but doesn't know how to make the system better. The Audit Office communicating potential actions to improve auditee's systems leads to better and faster implementation of the recommendations. In situations where a recommendation is controversial, the auditor may want to make the recommendation more provisional, especially when the results of implementation cannot be proven. In this case, the auditor might recommend things such as management performing a cost/benefit analysis to determine if a change is necessary or recommending management study or consider a different approach. This allows management to assume the risk of failing to take action.

Reports are more effective when the tone is not unnecessarily negative or pejorative. Findings that are derogatory discourage the auditee from cooperating to improve the condition.

Reports are more persuasive and fair when the impact of a finding is quantified. Findings can be quantified in absolute or relative terms. Effective ways of quantifying significance include using dollars as a measure, and relating the number or errors to the sample size and the size of the population.

Reports are more also effective when they are issued timely. Auditees are less likely to take recommendations seriously when the report is delivered long after fieldwork is completed.

The auditor should avoid including trivial information in the report. Including small findings can detract from the importance of other, more significant findings, and overwhelm the reader with their volume. Immaterial findings can be communicated to the auditee verbally, or in an informal memorandum that is separate from the audit report.

The auditor should avoid jargon, unfamiliar words, uncommon words, and showy language. Such practices may serve to demonstrate the intelligence of the auditor but do little or nothing to convince the auditee to implement recommendations.

RECOMMENDATION FOLLOW UP

Management recognizes its responsibility for implementing recommendations included in audit reports. The Office of Audits should follow up on outstanding internal audit recommendations at least every six months.

The Office of Audits should perform follow-up work on the implementation of all recommendations from prior engagements when working on current engagements, as necessary.

CHAPTER 3 - ENGAGEMENT PLANNING

Proper planning is essential if audits are to be conducted efficiently and effectively. A planning of engagement work is a requirement of both the AICPA's generally accepted auditing standards and *GAGAS*.

Through engagement planning, auditors identify the scope and objectives of each engagement and determine the methodology or procedures necessary to achieve those objectives. Engagement planning is significantly affected by the auditor's responsibilities regarding engagement risk and materiality, fraud and compliance with legal provisions.

ENGAGEMENT RISK AND MATERIALITY

Engagement Risk

Auditors are responsible to plan and perform an audit or attestation engagement to provide the desired level of assurance that material misstatements, whether caused by errors or fraud, are detected. Statements on Auditing Standards, AU Section 312, provides guidance on the auditor's consideration of audit risk and materiality when planning and performing an audit of financial statements in accordance with generally accepted auditing standards. Although these standards apply only to financial statement audits, an understanding of the concepts of audit risk and materiality is beneficial to auditors involved in any type of engagement.

Auditors should perform an assessment of the risk of material misstatement or noncompliance (whether caused by error or fraud) during the planning phase of any engagement. The auditor's understanding of internal control may heighten or mitigate conclusions about the risk of material misstatement or noncompliance. Whenever the auditor concludes there is significant risk of material misstatement regarding management's assertions, or there are significant risks in the program being evaluated, the auditor must consider these risks in determining the nature, timing, or extent of procedures to be performed; assigning staff; or requiring appropriate levels of supervision. The knowledge, skill and ability of personnel assigned to audits should be commensurate with the auditor's assessment of the level of risk. Ordinarily, higher risk requires more experienced personnel or more extensive supervision during both the planning and fieldwork stages of the audit. Also, a higher risk assessment may cause the auditor to expand the extent of procedures applied, apply procedures closer to or as of the end of the period under review, or modify the nature of procedures to obtain more persuasive evidence. In an audit of an entity with operations in multiple locations or with components, the auditor should consider the extent to which auditing procedures should be performed at selected locations or components.

In planning an engagement, the auditor should use judgment as to the acceptable level of audit risk and materiality levels that can be expected to provide sufficient evidence to obtain the desired level of assurance regarding management's assertions.

Materiality in Performance Audits

For performance audits, materiality is more difficult to define since performance audits do not typically focus on a financial statement or specific transaction amounts. For some audits, materiality concepts simply will not apply. For others, it may be possible to quantify in terms of a dollar amount or number of errors what would be material to the specific program or operation being reviewed.

Materiality in External Engagements

The auditor plans the engagement to obtain reasonable assurance of detecting misstatements that could be large enough, individually or in the aggregate, to be quantitatively material. Although the auditor should be alert for misstatements that could be qualitatively material, it ordinarily is not practical to design procedures to detect them. An auditor typically works within economic limits; the opinion or conclusion, to be economically useful, must be formed within a reasonable time and at reasonable cost. For all engagements, there should be a rational relationship between the cost of obtaining evidence and the usefulness of the information obtained.

Ordinarily, it is not feasible for the auditor, when planning an engagement, to anticipate all the circumstances that may ultimately influence judgments about materiality in evaluating the engagement findings at the completion of the engagement. Thus, the auditor's preliminary judgment about materiality ordinarily will differ from the judgment about materiality used in evaluating the engagement findings. If significantly lower materiality levels become appropriate in evaluating engagement findings, the auditor should reevaluate the sufficiency of the auditing procedures he or she has performed.

In planning auditing procedures, the auditor should also consider the nature, cause (if known), and amount of misstatements that he or she is aware of from the engagement of the prior period's financial statements or prior audits of the entity or program being considered.

In determining the nature, timing, and extent of auditing procedures to be applied to a specific account balance or class of transactions, the auditor should design procedures to obtain reasonable assurance of detecting misstatements that, based on the preliminary judgment of materiality, could be material when aggregated with misstatements in other balances or classes, to the financial statements taken as a whole. Auditors use various methods to design procedures to detect such misstatements. In some cases, auditors explicitly estimate for planning purposes, the maximum amount of misstatements in the balances or class that, when combined with misstatements in other balances or classes could exist without causing the financial statements to be materially misstated. In other cases, auditors relate their preliminary judgment about materiality to a specific account balance or class of transactions without explicitly estimating such misstatements.

At the account balance or class of transactions level, audit risk consists of the risk (inherent risk and control risk) that the balance or class and related assertions contain misstatements (whether caused by error or fraud) that could be material to the financial statements when aggregated with misstatements in other balances or classes, and the risk (detection risk) that the auditor will not detect such misstatements. The way the auditor considers these component risks and combines them involves professional judgment and depends on the audit approach.

B. Fraud, Abuse, Irregularities & Illegal Acts

Yellow Book guidance for this subject area can be found in: Chapter 4, Sections 4.18 and 4.20; Chapter 5, Section 5.12; Chapter 6, Sections 6.15 – 6.20; Chapter 7, Sections 7.17 - 7.27; and Chapter 8, Sections 8.19 - 8.26.

Financial Audits should be planned and designed to provide reasonable assurance of detecting irregularities that are material to financial statements and material misstatements resulting from non-compliance with provisions of contracts and grant agreements (See Yellow Book, Chapter 4).

Performance Audits should be planned and designed to provide reasonable assurance of detecting significant illegal acts related to laws and regulations that are significant to the audit objectives where the risk of significant illegal acts could occur (See Yellow Book, Chapter 7).

When an auditor suspects the occurrence of fraud, abuse, irregularities or illegal acts related to an audit area, the concern should be fully documented and presented to the appropriate Assistant Office Head and Office Head as soon as possible. This will allow the Assistant Office Head the opportunity to adjust field audit procedures. The auditor should not alert the auditee as to the concerns.

If the Assistant Office Head agrees with the auditor's concern, a plan for further investigation or testing should be developed for discussion with and approval by, applicable Audit office management. The Audit Office Head should be notified of the investigation and planned procedures once management has assessed the allegations.

Upon approval of the plan by Audit office management, further investigation and testing will be conducted and a summary report of findings will be developed and presented to the Assistant Audit Office Head and Audit Office Head. If the Audit Office Head determines that audit evidence supports that theft, fraud, abuse, irregularities or illegal act has occurred related to public funds or property, the Audit Office Head will present the summary report related to the particular issue, and all relevant supporting documentation to the Office of Legal for further investigation. The GDOT Commissioner will also be notified.

The Office of Audits will maintain a file on all investigation requests/reports submitted to the Office of Legal. Appropriate follow-up will be made to assure that appropriate follow-up/investigation was done by the Office of Legal.

C. Planning for Performance Audits

Materiality and risk are harder to identify and quantify for performance audits than for other engagements the Office of Audits performs. As a result, planning for performance audits may take a different focus than planning for financial audits. *GAGAS* require adequate planning for performance audits to reduce audit risk and provide reasonable reassurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions. In planning the audit, auditors should define the audit objectives as well as the scope and methodology to achieve those objectives. Each of these elements must be considered in context with the others because of the close relationship between scope, methodology, and audit objectives. Planning occurs continuously throughout the audit and the auditor must make adjustments to the scope, objectives, and methodologies as needed.

Audit objectives are what the audit is intended to accomplish. The objectives identify what areas will be reviewed and what performance criteria will be used.

Scope defines the parameters of the audit and must be closely tied to the objectives. For example, the scope will detail the period of time reviewed, the availability of necessary documents or records, and the locations where field work will be performed.

Methodology describes the work involved in gathering and analyzing data necessary to achieve the objectives. Auditors should design the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the audit.

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. Auditors should consider the significance of a program or program component and the potential use that will be made of the audit results as they plan a performance audit. Indicators to consider include the visibility and sensitivity of the program; newness of the program or recent changes; whether the audit can provide information that can improve public accountability and decision making; and the level and extent of review or other forms of independent oversight.

Documentation of the planning process should include the following:

1. Consideration of the significance of various programs and the needs of potential users of the audit report.

2. Obtaining an understanding of the program to be audited.

3. Obtaining an understanding of internal control as it relates to the specific objectives and scope of the audit.

4. Designing methodology and procedures to detect fraud or significant violations of legal and regulatory requirements, contract provisions or grant agreements.

5. Identifying system controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives.

6. Identifying the criteria needed to evaluate matters subject to audit.

7. Consideration of the results of previous audits and attestation engagements that could affect the current audit objectives.

8. Identifying potential sources of data that could be used as audit evidence.

9. Considering whether the work of other auditors and experts may be used to satisfy some of the audit objectives.

10. Providing appropriate and sufficient staff and other resources to perform the audit.

11. Communicating general information concerning the planning and performance of the audit to management officials responsible for the program being audited and others as applicable.

12. Preparing an audit plan.

D. COMPLIANCE WITH LAWS AND REGULATIONS

Examinations, Financial Audits, and Performance Audits

Audits conducted under *GAGAS* have certain responsibilities regarding the detection of fraud and illegal acts that are the same as those under AU sections 316 and 317. *GAGAS* also establishes certain auditor responsibilities regarding the reporting of deficiencies in internal control, fraud, illegal acts, violations of contracts or grant agreements and abuse for financial statement audits and attestation engagements. *GAGAS* also establishes certain standards for performance audits, and attestation engagements concerning legal and regulatory requirements, provisions of contracts or grant agreements, and fraud or abuse significant within the context of the audit objectives.

For both financial and performance audits, the auditors must design the audit to provide reasonable assurance about compliance with laws and regulations that are significant to audit objectives. Auditors are also responsible for detecting material misstatements resulting from noncompliance with such provisions having a direct and material effect on the determination of financial statement amounts as well as any noncompliance that could have a material impact on audit objectives related to a performance audit. If violations of laws, regulations, or provisions of contracts or grant agreements could significantly affect the auditor's answers to the questions that relate to the audit objectives, then those laws, regulations, and provisions are likely to be significant to the audit objectives.

If specific information comes to the auditor's attention that provides evidence concerning the existence of possible noncompliance with such provisions that could have a material indirect effect on the financial statements or assertions, the auditor must apply auditing procedures specifically directed toward determining whether that noncompliance has occurred.

When performance auditors identify factors or risks related to fraud that they believe could significantly affect the audit objectives or results of the audit, auditors should respond by designing procedures to provide reasonable assurance of detecting fraud significant to the audit objectives. Auditors should prepare audit documentation related to their identification and assessment of and response to fraud risks.

In performance audits, auditors should be alert to situations or transactions that are indications of fraud or abuse. When such information comes to their attention, auditors should consider whether possible fraud or abuse could significantly affect the audit results. If the fraud or abuse could significantly affect the audit results, the auditors should extend the audit steps and procedures as necessary to determine if fraud or abuse likely has occurred and, if so, determine its effect on the audit results.

In planning tests of compliance for significant laws and regulations, auditors should assess the risk that illegal acts could occur. That risk may be affected by such factors as the complexity of the laws and regulations or their newness. The assessment of risk includes consideration of the entity's controls and whether sufficient controls exist to ensure compliance with laws and regulations. If, in the auditor's judgment, controls are sufficient to ensure compliance with laws and regulations, then the auditor can reduce the extent of testing required.

Auditors should obtain an understanding of the possible effects laws and regulations affecting the entity may have on financial statements or the programs being reviewed. Auditors may find it necessary to use the work of legal counsel in determining which laws and regulations might have a direct effect on the financial statements or the program being reviewed, designing tests of compliance with laws and regulations, and evaluating the results of those tests. Depending on the circumstances of the audit, the auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, and/or the applicable law enforcement authority.

If during the course of the engagement, the auditor becomes aware of abuse that could be significant to the program under audit; the auditor should apply procedures to determine the effect on the program. Auditors are not required to provide reasonable assurance of detecting abuse.

Auditors should exercise professional judgment in pursuing indications of possible fraud, or illegal acts, or abuse to avoid interfering with potential future investigations, legal proceedings, or both. Auditors may also be required to withdraw from, or defer, further work on the audit or a portion of the audit in order not to interfere with an investigation.

Reviews and Agreed-Upon-Procedures

If during the course of the engagement, information comes to the auditors' attention indicating that fraud, illegal acts, or violations of provisions of contracts or grant agreements that could have a material effect on the subject matter may have occurred, auditors should perform procedures as necessary to (1) determine if fraud, illegal acts, or violations of provisions of contracts or grant agreements are likely to have occurred and, if so, (2) determine their effect on the results of the attestation engagement. Auditors are not expected to provide assurance of detecting potential fraud, illegal acts, or violations of provisions of contracts or grant agreements for these types of engagements unless it is specified in the procedures.

E. PRIOR AUDIT FOLLOW UP

As part of the planning and risk assessment process, auditors should follow up on known material findings and recommendations made in previous engagements that could have a material impact on the current engagement. The auditor should determine whether the auditee has taken timely and appropriate corrective actions and report the status of uncorrected material findings and recommendations from prior engagements.

CHAPTER 4 - INTERNAL CONTROL CONSIDERATIONS

Foreword

The following chapter primarily focuses on internal control considerations required for financial statement audits under *GAGAS* and AICPA standards. While the Office of Audits does not generally perform financial statement audits that require adherence to the AICPA “AU” standards referenced throughout this chapter, the principles of internal control evaluation and the considerations in this chapter are the most relevant guidance to the attestation engagements the Audit Office typically performs and should be considered when auditors evaluate internal control.

Introduction

Obtaining an understanding of an auditee's internal control is essential to the audit planning process. The auditor's responsibility regarding internal control is stated in the AICPA's second standard of fieldwork of generally accepted auditing standards as follows:

The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to errors or fraud, and to design the nature, timing and extent of further audit procedures (AU314.01).

For financial statement audits, this standard has been incorporated into *GAGAS*. In planning examination-level attestation engagements, auditors should obtain a sufficient understanding of internal control that is material to the subject matter or assertion to plan the engagement and design procedures to achieve the objectives of the attestation engagement.

For performance audits, *GAGAS* states that auditors should obtain an understanding of internal control significant to the audit objectives and assess whether specific internal control procedures have been properly designed and placed in operation.

Many aspects of internal controls related to financial audits and attestation engagements are also pertinent to performance audits. As a result, discussion of internal controls as they relate to financial audits as well as performance audits will be included in this chapter.

A. COMPONENTS OF INTERNAL CONTROL

AU Section 314.41 defines internal control as a process affected by those charged with governance, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

a) reliability of financial reporting

b) effectiveness and efficiency of operations, and

c) compliance with applicable laws and regulations.

Operational Audit's main focus is on the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible for establishing effective controls. These controls should include the plan of the organization and methods and procedures adopted by management to ensure its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They also include systems for measuring, reporting, and monitoring program performance.

To help identify and analyze internal controls, AU Section 314.41 has defined internal control as consisting of five interrelated components:

1. Control Environment

2. Risk Assessment

3. Control Activities

4. Information and Communication

5. Monitoring

There is a direct relationship between the objectives an entity strives to achieve and the components of internal control. The components are necessary to achieve the objectives. Internal control is relevant to the entity as a whole as well as to its individual operating units or business functions. For financial reporting objectives, generally the controls that are relevant to the audit relate to preparing financial statements that are fairly presented in conformity with generally accepted accounting principles. For performance and compliance objectives, controls are relevant to the audit if they pertain to the data the auditor uses to evaluate operations or compliance issues. Not all controls relevant to financial reporting objectives will be important in performance or compliance audits. An entity will generally have controls that will not be relevant to the particular audit being performed and, therefore, need not be considered for that audit.

Internal control, no matter how well designed and operated, can provide only reasonable assurance to management regarding achievement of an entity's control objectives. Achievement of objectives is affected by limitations inherent to internal control. These limitations include the possibility of human error and circumvention of controls by collusion of two or more people. Another limiting factor is that the costs of implementing the control should not exceed the benefit derived from it. Management must make cost-benefit decisions when designing any system of controls. Auditors must also take costs and benefits into consideration when evaluating or reporting on internal control systems.

For all audits, the auditor should obtain an understanding of the five components of internal control that is sufficient to plan the audit. This understanding may be obtained by performing procedures to help the auditor understand the design of controls relevant to the audit and whether these controls have been placed in operation. Such procedures can include inquiry, a walk-through of selected transactions, or testing.

The nature, timing, and extent of procedures the auditor chooses to perform to obtain the understanding of internal control will vary depending on the size and complexity of the entity, the type of audit being performed, previous experience with the entity, the nature of the specific controls being reviewed, and the entity's documentation of controls. Whether a control has been placed in operation is different from its operating effectiveness. Likewise, a procedure could be written and effectively implemented, yet be poorly designed. An auditor should not only obtain knowledge of the control but also determine whether the control is sufficiently designed and is being applied. For example, a reporting system may provide detailed reports on an organization's performance but if these reports show measurements of irrelevant data or are never analyzed or acted upon, the control is ineffective.

In making a judgment about the understanding of internal control necessary to plan the audit, the auditor should consider information obtained from other sources including previous audits and the understanding of the industry in which the entity operates. The auditor also considers the assessment of inherent risk, judgments about materiality and how they apply to the audit, and the complexity and sophistication of the entity's operations and systems, including whether the method of controlling information processing is based on manual procedures independent of the computer or is highly dependent on computerized controls. As an entity's operations and systems become more complex and sophisticated, it may be necessary to devote more attention to internal control components to obtain the understanding necessary to design effective substantive tests.

An entity's use of information technology (IT) may affect any of the five components of internal control relevant to the achievement of an entity's financial reporting, operations, or compliance objectives. The use of IT affects the fundamental manner in which transactions are initiated, authorized, recorded, processed and reported. While IT operations provide benefits of effectiveness and efficiency, it also poses specific risks to internal controls including systematic data errors, unauthorized access to data, unauthorized changes to programs and files, and potential loss of data or access to data. The auditor should obtain an understanding of the IT processes that impact financial data and how misstatements may occur. Evaluating the controls over IT systems may require the use of specialists.

GAGAS includes requirements for assessing information systems controls for performance audits. Understanding information systems controls is important when such systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems. Performance auditors are primarily interested in those information systems controls that are significant to the audit objectives. Auditors must evaluate the design and operating effectiveness of these controls. Auditors should obtain a sufficient understanding of the pertinent controls to assess risk and plan the audit within the context of the audit objectives. The evaluation of the information systems controls may be done in conjunction with the auditor's consideration of internal control within the context of the audit objectives or as a separate audit objective or procedure.

Control Environment

(AU Section 314.67-.75) - The control environment is the foundation for all the components of internal control. It sets the tone of the organization and influences the control consciousness of its employees. The primary responsibility for the prevention and detection of fraud and error rests with those charged with governance and the management of the entity. In evaluating the control environment, the following factors should be considered:

a) Communication and enforcement of integrity and ethical values - These are essential elements of the control environment. Integrity and ethical behavior result from established standards, how these standards are communicated, and how they are enforced in practice. Points to consider would be management's actions to reduce incentives and temptations for employees to engage in dishonest, illegal, or unethical acts and communication of the entity's values and standards to employees by management's example and through policy statements.

b) Commitment to competence – This might include management's procedures to ensure that competent, skilled individuals are employed.

c) Participation of those charged with governance - An auditee's governing body significantly influences the auditee. Relevant considerations include the extent of its involvement in and scrutiny of activities, the appropriateness of its actions, and its interaction with internal and external auditors.

d) Management's philosophy and operating style - Management's philosophy and operating style incorporates a broad range of characteristics such as risk taking, attitudes toward reporting, and attitudes toward information processing and accounting functions.

e) Organizational structure - The organizational structure provides a framework for the entity to achieve its objectives. Points to consider are the size and nature of the auditee, activities being conducted, and the key areas of authority and responsibility.

f) Assignment of authority and responsibility - Areas to identify include the method of assigning authority and responsibility for operating activities and of establishing reporting relationships and authorization levels, knowledge of key employees and resources provided for performing duties, and policies aimed at ensuring employees know and understand the entity's objectives, know how their individual actions relate to achieving those objectives and recognize how and for what they will be held accountable.

g) Human resource policies and practices - These are the policies that relate to hiring, training, counseling, evaluating, promoting and compensating employees.

The auditor should obtain sufficient knowledge of the control environment to understand management's attitude, awareness, and actions and must consider both the substance of the controls and whether the controls are actually operating. The auditor must also consider the collective effect of strengths and weaknesses in various control environment factors.

Risk Assessment

(AU Sections 314.76-.80) – An entity's risk assessment for financial reporting as well as operations performance and compliance consists of its identification, analysis, and management of risks relevant to the preparation of the financial statements or the operation of its programs. Risks relevant to financial reporting and the entity's performance include external and internal events and circumstances that may alter and adversely affect an entity's ability to record, process, summarize and report data. Risks can arise or change due to circumstances such as the following:

a) Changes in operating environment

b) New personnel

c) New or revamped information systems d) Rapid growth

e) New technology

f) New lines, products, or activities g) corporate restructuring

h) Expanded foreign operations

i) New accounting pronouncements

The auditor should obtain a sufficient knowledge of the entity's risk assessment process to determine how management deals with changes such as those listed above, as well as its decision making process regarding actions to address risks that have been identified. This understanding would include how management identifies risks, estimates the importance or significance of the risk identified and its impact on the entity. As well as how management assesses the likelihood of the risk occurring, and determines a course of action. The use of information technology (IT) may be an important tool in an entity's risk assessment process, including providing timely information to help identify and manage risks. It should be noted that an entity's risk assessment will differ from the auditor's consideration of audit risk. The purpose of the entity's risk assessment is to identify, analyze, and manage risks that affect the entity. In a financial statement audit, the auditor assesses risk to evaluate the likelihood that material misstatements could occur in the financial statements.

Control Activities

(AU Sections 314.89-.96) - Control activities are the policies and procedures that help ensure management directives are carried out. Controls over program operations include policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. Understanding these controls can help auditors understand the program operations that convert efforts to outputs. Controls over compliance with laws and regulations include policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations. Controls over the safeguarding of resources include policies and procedures that management has implemented to ensure resources are safeguarded against waste, loss, and misuse. General control activities that may be relevant to an audit may be categorized as policies and procedures that pertain to the following:

a) Authorization – Control activities related to the initiation of derivatives and other off-balance sheet transactions may be relevant to the auditor's design of audit procedures related to the completeness assertion.

b) Segregation of duties – This requires that different employees be assigned the responsibility of authorizing transactions, recording transactions and maintaining custody of assets.

c) Safeguarding – Control activities related to whether inventory is securely stored and the movement and access to inventory is limited to authorized individuals may be relevant to the auditor's design of audit procedures related to the existence assertion.

d) Asset accountability – Control activities related to reconciliations of the detailed records to the general ledger are ordinarily necessary to design and perform audit procedures for material classes of transactions and account balances.

The auditor should consider the knowledge about the presence or absence of control activities obtained from the understanding of the other components of internal control in determining whether it is necessary to devote additional attention to obtaining an understanding of control activities. An audit does not require an understanding of all the control activities related to each class of transactions or account balances. The auditor's primary consideration is whether, and how, specific control activities, individually or in combination with others, prevents, or detects and corrects, material misstatements. The auditor should emphasize those control activities that address areas where material misstatements are more likely to occur. The auditor should also obtain an understanding of how IT affects control activities that are relevant to planning the audit. The use of IT affects the way that control activities are implemented. For example, when IT is used in an information system, segregation of duties is often achieved by implementing security controls.

Information and Communication

(AU Sections 314.81-.88) - The information system relevant to financial reporting objectives or performance objectives consists of the methods and records established to record, process, summarize, and report entity transactions as well as events and conditions and to maintain accountability for the related assets, liabilities, and equipment. The quality of the information system will affect management's ability to make appropriate decisions.

In obtaining a knowledge of the information system (whether electronic or manual), the auditor should consider how transactions are significant to the entity being audited, how these transactions are initiated, what documentation exists to support these transactions, the process used to account for the transactions, and the reporting process established. When IT is used to initiate, record, process, or report transactions, the systems and programs may include controls related to the corresponding assertions for significant accounts or may be critical to the effective functioning of manual controls that depend on IT. The auditor should also consider how the entity communicates internally as well as with outside organizations.

Controls over the validity and reliability of data include policies and procedures that management has implemented to ensure valid and reliable data are obtained, maintained and fairly disclosed in reports. These controls help assure management that it is getting valid and reliable information about whether programs are operating properly. Equally important is how the entity communicates financial reporting roles and responsibilities and significant matters.

The auditor should obtain an understanding of the automated and manual procedures used to prepare the financial statements and related disclosures and how misstatements may occur. This includes an understanding of how transactions originate within the entity's business processes. The auditor should also obtain a sufficient understanding of how the entity communicates financial reporting roles and responsibilities and significant matter relates to financial reports.

Monitoring

(AU Sections 314.97-.101) - An important management responsibility is to establish and maintain internal controls. Management must monitor its controls to ensure they are operating as intended. Monitoring is a process that assesses the quality of the controls over time. It involves assessing the design and operation of the control on a timely basis and taking corrective action when necessary. In gaining knowledge of the entity's operations, the auditor should consider how the entity monitors its operations, whether timely performance reports are being prepared and reviewed, and how the entity responds to problems. In addition, the auditor should also consider communication from external parties such as regulatory agencies or customers that may highlight an area in need of improvement.

Control Objectives

GAGAS provide the following internal control objectives to help auditors better understand internal controls and determine their significance to audit objectives for performance audits:

1. <u>Effectiveness and efficiency of program operations</u> - Controls over program operations include policies and procedures implemented to reasonably ensure a program effectively and efficiently meets its objective and unintended actions do not result. Understanding these controls can help auditors understand the program operations that convert efforts to outputs or outcomes.

2. <u>Relevance and reliability of information</u> - Controls over the relevance and reliability of information include policies and procedures officials have implemented to reasonably ensure valid and reliable data are obtained, maintained, and fairly disclosed in reports. These controls help assure management that it is getting valid and reliable information about whether programs are operating properly on an ongoing basis. Understanding these controls can help auditors assess the risk that the data gathered by the entity may not be valid or reliable and design appropriate tests of data.

3. <u>Compliance with applicable laws and regulations and provisions of contracts or grant agreements</u> - Controls over compliance include policies and procedures officials have implemented to reasonably ensure program implementation is consistent with laws, regulations, and provisions of contracts or grant agreements. Understanding the relevant controls concerning compliance with laws and regulations for those contracts or grant agreements the auditors have determined are significant can help auditors assess the risk of illegal acts, violations of provisions of contracts or grant agreements, or abuse.

A subset of the above categories is the safeguarding of assets and resources. Controls include policies and procedures implemented to prevent or detect unauthorized use or disposition of assets and resources.

B. DOCUMENTATION OF INTERNAL CONTOL

Auditors can obtain an understanding of management controls through inquiries, observations, inspection of documents, and records, or review of other auditors' reports. The procedures auditors perform to obtain an understanding of management controls will vary among audits.

One factor influencing the extent of these procedures is the auditor's knowledge about management controls gained in prior audits. Also, the need to understand management controls will depend on the particular aspects of the program the auditors consider in setting objectives, scope, and methodology.

Documentation of internal controls for internal audits might consist of the completion of a general questionnaire to provide an understanding of the overall control environment of the entity. In addition to this questionnaire, individual memos, flowcharts, documented interviews or other information might be prepared for each of the control procedures identified as being significant to the audit. These memos will also document the auditor's assessment of risk for each significant area.

C. ASSESSING AUDIT RISK

Audit risk at the account balance or class of transactions level, consists of inherent risk, control risk, and detection risk. Although these risk levels are traditionally geared toward financial audits, they can also be used for performance and compliance audits.

Inherent Risk

Inherent risk refers to the possibility of material misstatements or errors assuming no related controls exist. Inherent risk focuses more on the characteristics of an account balance or transaction. The following examples represent things to consider when assessing inherent risk:

a) Size and number of individual items comprising the population

b) Consistency of transaction volume throughout the year versus seasonal fluctuations

c) Complexity of computations or legal provisions affecting the transaction or program

d) Extent of judgment or estimation involved

e) Complexity and contentiousness of accounting or performance issues

f) Frequency or significance of difficult-to-audit transactions

g) Susceptibility of assets to loss or misappropriation

h) Nature, cause and amount of misstatements or problems detected in prior audits

i) Technological developments

Control Risk

Control risk is the risk that material misstatements or errors will occur and not be prevented or detected by the auditee's internal control system. In other words, control risk measures the effectiveness of the auditee's control system. Control risk may be assessed in terms of assertions as follows:

a) Existence or occurrence

b) Completeness

c) Rights and obligations

d) Valuation or allocation

e) Presentation and disclosure

Inherent risk and control risk are the entity's risk and exist independently of the audit of financial statements. Auditors should assess the risk of material misstatement at the relevant assertion level as a basis for further audit procedures. Although that assessment is a judgment rather than a precise measurement of risk, the auditor should have an appropriate basis for the assessment. Auditors can no longer assess control risk at the maximum without having a basis for that assessment. When something is assessed at maximum risk, the audit report requires a finding. Such a finding would not be useful to the reader or the auditee if the finding is based on nothing but an automatic assessment. If, however, the auditor has determined that the internal control activity (e.g., procedure) is well designed and has been implemented (because the auditor walked a transaction/event through the internal control), the auditor can choose for the sake of efficiency to assess control risk at maximum and substantively test the resulting appropriate number of transactions.

Detection Risk

Detection risk is the risk that the auditor will not detect a material misstatement that exists in an assertion or material noncompliance. The auditor must consider both inherent risk and control risk when determining the acceptable level of detection risk. The auditor uses the assessed level of control risk together with the assessed level of inherent risk to determine the acceptable level of detection risk. Detection risk determines the nature, timing, and extent of the audit procedures to be performed. As the acceptable level of detection risk decreases, assurances provided by substantive testing should increase. To reduce audit risk to an acceptably low level, the auditor should determine overall responses to address the assessed risks of material misstatement at the financial statement level and should design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the relevant assertion level.

Impact of Fraud Risk Factors on Control Risk

AU Section 316 requires the auditor to specifically assess the risk of material misstatement due to fraud. That assessment must also be considered in designing auditing procedures to be performed. The auditor may assess the risk of material misstatement due to fraud in conjunction with assessing inherent risk and control risk, since fraud risk factors include aspects of both of these types of risk. AU Section 316, however, requires the fraud risk assessment to be documented separately from the assessment of inherent and control risk. When gaining an understanding of the controls relevant to any audit, including performance or compliance audits, the auditor should be alert to fraud risk factors. Fraud risk factors do not necessarily indicate the existence of fraud; however, they often are present in circumstances where fraud exists. When obtaining information about the auditee, the auditor should consider whether the information indicates one or more fraud risk factors are present and use professional judgment in determining whether a risk factor is present and should be considered in identifying and assessing the risks of material misstatement due to fraud. The following are some fraud risk factors to consider when reviewing internal controls:

a) high turnover of senior management, counsel, or board members b) new accounting, statutory, or regulatory requirements

c) significant, unusual, or highly complex transactions d) large amounts of cash on hand

e) inventory characteristics, such as small size, high value or high demand

f) lack of appropriate management oversight or adequate supervision

g) inadequate recordkeeping

h) lack of segregation of duties or independent checks

i) lack of appropriate authorization or approval over purchases

j) poor physical safeguards over cash, investments, inventory, or assets

k) domination of management by a single person or small group without compensating controls such as effective oversight by a board of directors or audit committee

l) management failing to correct known or reportable conditions on a timely basis

m) formal or informal restrictions on the auditor that inappropriately limit his or her access to people or information or his or her ability to communicate effectively with the board of directors or audit committee

n) domineering management behavior in dealing with the auditor, especially involving attempts to influence the scope of the auditor’s work

Fraud risk factors cannot easily be ranked in order of importance or combined into effective predictive models. The significance of such factors varies widely. The size, complexity, and unique characteristics of the auditee will also have a significant influence on the consideration of fraud risk factors.

Auditing standards require the auditor to obtain a sufficient understanding of the entity's internal control over financial reporting to plan the audit. Such knowledge should also be used to identify the types of potential misstatements, consider factors that affect the risk of material misstatement, design tests of controls, when applicable, and design substantive tests. The understanding of internal control will affect the auditor's consideration of the significance of fraud risk factors. When considering such factors, the auditor may wish to assess any specific controls that mitigate the risks identified. If the auditee has established a program that includes steps to prevent, deter, and detect fraud, the auditor may consider the effectiveness of such a program when evaluating identified risk factors. The auditor is required to document his or her assessment of the risk of material misstatement due to fraud. Where fraud risk factors are identified, documentation should include those risk factors identified and the auditor's response to those risk factors.

The auditor's overall response to address assessed risks of material misstatement may include emphasizing the need to maintain professional skepticism, assigning more experienced staff or those with specialized skills, providing more supervision, incorporating additional elements of unpredictability in the selection of further audit procedures and make general changes to the nature, timing, or extent of further audit procedures. Regardless of the audit approach selected, the auditor should design and perform substantive procedures for all relevant assertions. Because effective internal controls general reduce but not eliminate risk of material misstatement, tests of controls reduce but do not eliminate the need for substantive procedures.

D. TESTS OF CONTROLS

(AU Sections 318.23-.34) - Procedures directed toward the effectiveness of either the design or operations of controls are referred to as tests of controls. Tests of controls directed toward the effectiveness of the design of a control are concerned with whether that control is suitably designed to prevent or detect material misstatements or noncompliance. Tests of controls directed toward the operating effectiveness of a control are concerned with how the control was applied, the consistency with which it was applied during the audit period, and by whom it was applied. These tests ordinarily include procedures such as inquiries of appropriate entity personnel; inspection of documents, reports or files indicating performance of the control; observation of the application of the control; and re-performance of the application of the control by the auditor. In some circumstances, a specific procedure may address the effectiveness of both design and operation. However, a combination of procedures may be necessary to evaluate the effectiveness of the design or operation of a control.

Tests of automated controls should obtain evidence supporting the effective operation of controls directly related to the audit objectives as well as other indirect controls on which those particular controls depend. Because of the inherent consistency of IT processing, the auditor may be able to reduce the extent of testing of an automated control. In addition, testing automated controls may require techniques different from those used to test manual controls. Computer-assisted audit techniques may be used to test automated controls or data. Automated tools could be used to test general controls such as program change controls, access controls, and system software controls. Because of the highly specialized nature of some IT systems, it may be necessary to use auditors with specialized skills to design and perform tests of IT controls.

When performing tests of controls, the auditor should remember that controls could have a pervasive effect (affect a wide range of auditee operations) or a very specific effect (affect only a small part of the transactions or operations). It is important that the auditor design the tests of controls to include those controls that are significant over the particular area that is being audited. Controls can also have a direct or indirect effect on assertions. The more direct the relationship, the more effective the control would be in reducing control risk.

Auditors can select from a variety of techniques such as inquiry, observation, inspection, and re-performance of a control that pertains to an assertion. No one specific test of controls is always necessary, applicable or equally effective in every circumstance. The auditor may design a test of controls to be performed concurrently with a test of details on the same transaction. The objective of the test of controls is to evaluate whether a control operated effectively. The objective of tests of details is to support a relevant assertion or detect material misstatements at the relevant assertion level. Although these objectives are different, both may be accomplished concurrently through a dual-purpose test. The absence of misstatements detected by a substantive procedure does not provide audit evidence that controls related to the relevant assertion being tested are effective; however, misstatements that the auditor detects performing substantive procedures should be considered when assessing the operating effectiveness of related controls.

Timing of Tests of Controls

(AU Section 318.35-.45) - The timing of tests of controls depends on the auditor's objectives and the period of reliance on those controls. Controls tested at a particular time may only provide evidence that the controls operated effectively only at that time. When controls are tested throughout a period, audit evidence on the effectiveness of those controls is obtained for that period. The auditor should test controls at a particular time and also through the audit period for which the auditor intends to rely on those controls as necessary to obtain the audit evidence needed to determine the risk of material misstatements. If the auditor plans to use prior audit evidence on the operating effectiveness of controls, the audit should obtain audit evidence about whether changes in those specific controls have occurred subsequent to the prior audit. If, based on the understanding of the entity and its environment, the auditor plans to rely on controls that have not changed since they were last tested, the auditor should test the operating effectiveness of such controls at least once in every third year in an annual audit.

Extent of Tests of Controls

(AU Section 318.46-.49) - Tests of controls should be designed to obtain sufficient audit evidence that the controls are operating effectively throughout the period of reliance. In designing these controls, auditors should consider how often the control is performed; the length of time the auditor is relying on the operating effectiveness of the control; the relevance and reliability of the audit evidence obtained supporting that the control prevents or detects and corrects material misstatements; the extent to which audit evidence is obtained from tests of other controls; the extent the auditor plans to rely on the operating effectiveness of the control and the expected deviation from the control. Tests of controls should be increased if more reliance is placed on the operating effectiveness of the control. As IT processing is inherently consistent, testing may be limited to only a few instances. An automated control should function consistently unless the program is changed.

E. INTERNAL CONTROL CONCLUSIONS

The remaining steps in the consideration of internal control are considering the implications of test results, documenting the risk assessment, and designing appropriate substantive tests.

Implications of Test Results

(AU Sections 318.60-.76) - Based on the audit procedures performed and the audit evidence obtained, the auditor should evaluate whether the assessments of the risks of material misstatement at the relevant assertion level remain appropriate. For example, if test results indicate a control is not operating efficiently, the auditor may need to change the nature, timing, or extent of planned substantive tests, i.e., test sizes may need to be increased or the auditor may wish to rely more extensively on outside confirmations. In analyzing the test results, the auditor must not only consider the frequency of exceptions but also the qualitative aspects (e.g., is this an isolated occurrence or an error that could extend to numerous transactions or be an indication of fraud). In addition, information may come to the auditor's attention that differs significantly from the information on which the risk assessments were based.

Deviations from prescribed controls may occur. These deviations could be caused by changes in key personnel, seasonal fluctuations and human error. When such deviations are detected, the auditor should make specific inquiries to understand these matters and potential consequences and determine whether the tests of controls provide an appropriate basis for reliance on the controls.

Auditors should not assume that an instance of fraud or error is an isolated occurrence and must consider how the detection of such an instance affects the assessed risks of material misstatement. Before the audit is concluded, the auditor should evaluate whether audit risk has been reduced to an appropriately low level and whether the nature, timing and extent of the audit procedures may need to be reconsidered. The sufficiency and appropriateness of audit evidence to support the auditor's conclusions are a matter of professional judgment. If the auditor has not obtained sufficient appropriate audit evidence for a material assertion, the auditor should attempt to obtain further evidence. If further evidence cannot be obtained, the auditor should express a qualified opinion or a disclaimer.

Documentation of Risk Assessments

(AU Section 318.77) - In addition to documenting the understanding of internal control, the auditor must document his or her conclusions regarding the assessed level of risk. This conclusion must then be supported by properly documented results of tests of controls showing that the related controls are effective in design and operation.

For financial audits, *GAGAS* require the auditor to document his or her consideration that the planned audit procedures are designed to achieve audit objectives when evidential matter obtained is highly dependent on computerized information systems and is material to the objective of the audit and that the auditor is not relying on the effectiveness of internal control over those computerized systems that produced the information. The documentation should specifically address the rationale for determining the nature, timing, and extent of planned audit procedures, the kinds and competence of available evidential matter produced outside a computerized information system and/or plans for direct testing of data produced from a computerized information system, and the effect on the audit report if evidential matter to be gathered does not afford a reasonable basis for achieving the objectives of the audit.

For performance audits, auditors must evaluate the effectiveness of significant information systems controls to gain an understanding of the system as it relates to the needed information and also identify and evaluate any general controls and application controls that are critical to providing assurance over the reliability of the information required for the particular audit. Auditors should determine which audit procedures related to the information systems controls are needed to obtain sufficient, appropriate evidence to support the audit findings and conclusions. Auditors should also include audit documentation regarding their reasons for concluding that the planned audit procedures, such as direct tests of the data, are effectively designed to achieve specific audit objectives. In most audits, the Audit Office's ability to test general and application control will be limited; consequently, the Audit Office will place considerable reliance on unaudited general and application controls. In these instances, the Audit Office need to properly and accurately report the extent to which the Audit Office relied upon the unaudited general and application controls in the formulation of its conclusions.

Designing Substantive Tests

(AU Sections 318.47-.76) - After risk assessment is completed, the auditor must plan and perform substantive tests to reduce the level of detection risk to an acceptably low level. Substantive tests can consist of analytical procedures as well as tests of details of account balances and transactions.

Detection risk that the Audit Office can accept bears an inverse relationship to inherent risk and control risk. The greater the inherent risk and control risk, the less detection risk the auditor can accept. In other words, if inherent and control risk are high, the auditor must rely less on controls and more on substantive testing. To gain additional assurance from substantive tests, the auditor might consider one or more of the following:

a) Use tests directed toward independent parties outside the auditee

b) Consider performing tests at year end rather than at an interim date

c) Use a larger sample size or lower the cutoff amount for items to be tested 100 percent

Conversely, the less the inherent risk and control risk, the greater the detection risk auditors can accept. If inherent and control risk are low, the auditor should be able to reduce substantive testing. An important point to remember, however, is that regardless of the assessed level of control risk, the auditor will always need to perform some substantive tests for significant account balances or transactions and for significant operating or compliance activities.

CHAPTER 5 - ENGAGEMENT PROGRAMS

AND SAMPLING

Introduction

As part of the engagement planning process described in Chapter 3, the auditor defines the scope and objectives for each engagement and determines the methodology or procedures needed to achieve the objectives. The auditor uses written programs to document the procedures; these programs describe procedures to accomplish engagement objectives and provide a systematic basis for assigning work to staff and for summarizing the work performed. This chapter provides guidance for determining engagement objectives, preparing written engagement programs, and performing sampling techniques to help meet engagement objectives.

As with Chapter 4, much of the guidance in this section relates primarily to financial audits. While the Audit Office does not perform financial audits, the guidance from the AICPA auditing standards (AU) and *GAGAS* standards for financial audits should be used as a guide for the Audit Office's engagements.

A. ENGAGEMENT OBJECTIVES AND SCOPE

GAGAS define engagement objectives as the answer to the question, "what is the engagement intending to accomplish?" The objective(s) determine the type of engagement (financial audit, attestation, or performance audit) to be conducted and the relevant standards to be followed.

The auditor develops the engagement objectives during the planning phase of the engagement. The objectives identify specific engagement areas and include any engagement areas that are expected to impact the engagement report. Engagement objectives can be thought of as the questions the engagement plans to answer. For example, in an economy audit, the auditor may question whether services would be better provided in-house or through outsourcing and the audit objective would be to determine the cost of providing the services in-house and compare it to the cost of outsourcing.

Scope is the boundary of the engagement and is directly tied to the engagement objectives. The scope defines the subject matter that the auditors will assess and report on. Once the scope of the engagement has been established by the Audit Office's management, auditor should remain aware of the applicable boundary as it pertains to the current project and should remain aware of other notable circumstances or potential deficiencies that should be communicated to the Audit Office management for future audit projects.

B. ENGAGEMENT PROGRAMS

Engagements procedures (a.k.a., procedure summary steps or audit procedures or audit guidelines) are the specific steps and tests auditors use to address the engagement objectives.

GAGAS indicates that auditors should design the methodology to obtain sufficient, appropriate evidence to address the engagement objectives, reduce engagement risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. AU Section 326.20 states, "The auditor should obtain engagement evidence to draw reasonable conclusions on which to base the audit opinion….".

The methodology or the adopted procedures are documented in an engagement program. The engagement program should be prepared in conjunction with engagement planning and before fieldwork for each area begins.

There is not necessarily a one-to-one relationship between engagement objectives and procedures. An engagement procedure may relate to more than one objective or several procedures may be needed to meet one objective.

Procedures must gather sufficient, appropriate evidence to support the auditor's findings and conclusions. Evidence is sufficient if enough exists to support the findings and is competent to the extent that it is consistent with fact.

Types of Tests

Engagement procedures or tests can be classified several ways; the most common classifications are by purpose of the test and type of test.

Tests usually address one or more of the following three purposes:

1. Test of controls to determine the effectiveness of the design and operation of controls
2. Substantive tests to detect material misstatements
3. Determine compliance with applicable legal provisions

A test meeting two of these three purposes is referred to as a dual purpose test. Likewise, a test meeting all three purposes is a triple-purpose test. In general, multi-purpose tests should only be performed in low risk situations, such as with entities where the Audit Office has had significant favorable experience with and only after receiving approval of Audit management.

Tests can also be classified as one of four major types:

1. Analytical procedures involving the comparisons of recorded amounts to expectations developed by the auditor
2. Inquiry and observation
3. Tests of transactions consisting of examining documents and records involved in processing transactions
4. Test of balances, involving examining evidence directly supporting the ending balance of an account

Assertions

Many factors affect the selection of the engagement procedures to be performed. Auditors should use the following assertions in obtaining engagement evidence that should affect the auditor's selection of auditing procedures:

Transaction Related Assertions

1. Occurrence
2. Completeness
3. Accuracy
4. Cutoff
5. Classification

Balance Related Assertions

1. Existence
2. Rights and obligations
3. Completeness
4. Valuation and allocation

Presentation and Disclosure Assertions

1. Occurrence and rights and obligations
2. Completeness
3. Classification and understandability
4. Accuracy and valuation

The auditor may use the relevant assertions as they are described above or may express them differently by choosing to combine the assertions about transactions and events with the assertions about account balances. Relevant assertions are assertions that have a meaningful bearing on whether the account, item or transaction is fairly stated. For example, valuation may not be relevant to a cash account; however, existence and completeness are always relevant. In determining whether a particular assertion is relevant, the auditor should evaluate the nature of the assertion, the volume of transactions or data related to the assertion, and the nature and complexity of the system, including the use of information technology.

The auditor should use one or more of the following types of engagement procedures as risk assessment procedures, tests of controls, or substantive procedures:

1. Inspection of records or documents, whether internal or external, in paper form, electronic form, or other media.
2. Inspection of tangible assets
3. Observation
4. Inquiry
5. Confirmation
6. Recalculation
7. Reperformance
8. Analytical procedures

The extent information technology is used in significant accounting applications, as well as the complexity of the processing, may affect the nature, timing, and extent of engagement procedures (AU Section 326.25). Some information may be available only in electronic form or only at certain points or periods of time. Source documents may be replaced with electronic messages. Business may be conducted electronically. Purchasing, shipping, billing, cash receipt, and cash disbursement transactions are often consummated entirely by the exchange of electronic messages. To facility storage, documents may be scanned and converted to electronic images. An entity's data retention policies may require the auditor to request retention of some information for the auditor's review or to perform engagement procedures at a time when information is available.

C. STANDARD ENGAGEMENT PROGRAMS

The auditor is responsible for preparing engagement programs during the engagement planning process. The Audit Office has developed some standard engagement programs to be used on most of the Audit Office's engagements. These programs should be considered as guides, however, and not as verbatim requirements of procedures to be performed.

The auditor should tailor the standard programs to fit the specifics of each engagement, making changes as necessary in response to engagement findings, risk assessments, and control tests. If a procedure does not apply to a specific engagement, the auditor should clearly indicate the step as not applicable and explain why.

D. SAMPLING AND NON-SAMPLING TECHNIQUES

AU Section 350.01 defines sampling as "the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class." While AU Section 350 provides guidance primarily for financial audits, the concepts remain integral to every engagement performed by the Audit Office.

Sampling is a generally accepted approach to accumulating engagement evidence. When properly selected, a sample allows the auditor to project conclusions to the entire population based on the sample results. Sampling is commonly used in substantive tests of details of account balances, substantive tests of details of transactions, tests of controls, and tests of compliance with legal provisions.

The determination of whether sampling should be used in a particular test depends on the auditor's intent. If the auditor intends to project the sample results to a population for the purpose of evaluating a characteristic of the population, then proper sampling techniques must be used. If the auditor wants to examine less than 100 percent of the population for purposes other than evaluating some characteristic of the population, non-sampling applications are acceptable. For example, the following situations would not involve sampling:

1. Examining a few transactions within an account balance or a transaction class to gain an understanding of auditee operations.
2. Applying an auditing procedure to a specific group of items within a balance or a class (e.g. testing all purchase orders exceeding $10,000).
3. Testing all transactions around a cutoff date.
4. Checking calculations, footing accounting records, or tracing entries to a ledger on a test basis.

In this section, we will discuss sampling techniques and non-sampling applications, and provide guidance on documenting engagement samples and non-sampling procedures.

Sampling Techniques

AU Section 350 provides for two general approaches to sampling: non-statistical and statistical. Both approaches require the auditor use professional judgment in planning, performing, and evaluating a sample and in relating the evidential matter produced by the sample to other evidential matter when forming a conclusion about the related account balance, class of transactions, or performance measure. The Audit Office's auditors will rarely, if ever, use statistical sampling techniques and only after obtaining concurrence from Audit management.

Statistical sampling allows a conclusion to be expressed in quantitative terms, while non-statistical sampling uses qualitative terms. For either method, the auditor must determine the expected population deviation rate and, if testing controls, the tolerable rate of error and the risk of assessing control risk too low.

Statistical sampling quantifies the level of sampling risk, tolerable error, alpha risk, beta risk, and other parameters. Sample size is determined from appropriate mathematical tables and sample items are selected at random. Sample results are expressed in quantitative terms and the errors are evaluated against predetermined levels of acceptability such as maximum tolerable rate or a dollar amount of tolerable error. Non-statistical sampling relies on judgment to determine sampling risk and sample size. Sample items can be selected randomly or haphazardly. The sample results can be evaluated judgmentally.

Statistical sampling helps the auditor to design an efficient sample, measure the sufficiency of the evidential matter obtained, and evaluate the sample results. By using statistical sampling, the auditor can quantify sampling risk to assist in limiting it to an acceptable level. Statistical sampling involves additional costs to train auditors, design individual samples to meet statistical requirements, and select the items to be examined. Because either non-statistical or statistical sampling can provide sufficient evidential matter, the auditor needs to choose between the available procedures after considering their relative cost and effectiveness in the circumstances encountered in each engagement. Since most sampling procedures conducted by the Audit Office are non-statistical, this chapter will focus on non-statistical sampling. For further guidance on statistical sampling, the auditor should consult AU Section 350, other sampling guidance in the Audit Office's library, and work closely with the unit manager.

Regardless of the sampling approach selected, the auditor must use professional judgment in planning, performing, and evaluating the sample and in forming conclusions based on the sample results. The following procedures should be followed and documented when performing sampling:

Sample Objectives –

The first step in sampling is to state the objectives of the sample. In most engagement areas, this includes determining if functions are being performed in compliance with department policies and procedures or whether performance criteria are being met. For example, in an audit of Human Resources, the auditor may sample new employee personnel files. One objective of the sample might be to determine if department policies regarding new hires are followed.

Population and Individual Sampling Unit –

When planning any sample, the auditor needs to relate the population to the test objectives. This requires both the population and the sampling unit to be defined. Sample results can only be projected to the population from which the sample was selected. If the wrong population is used, any conclusions made for the test objective will be invalid. Related to the issue of selecting the correct population is a need to ensure the population is complete. If the population is not complete, a representative sample cannot be drawn from the population.

As an example, let us assume that there was an audit of Human Resources and assume that the auditor was provided a listing of employees hired during the audit period by a Human Resources employee. The population for our sample would be all new employees hired during the audit period. If the auditor can ensure the completeness of the listing provided (i.e. the listing contains all the new hires), then this listing can serve as the population from which sample items will be selected. If the auditor cannot verify, through audit procedures, the completeness of the listing, any conclusions made as a result of the sample should be extended only to the listing and not to the potentially larger population of all new hires.

An individual sampling unit is each item that makes up the population. In our audit example, the individual sampling unit would be each employee hired during the audit period. If we were unable to ensure the completeness of the population, our individual sampling unit would be each employee included on the list.

Sample Selection –

AU Section 350.24 states "Sample items should be selected in such a way that the sample can be expected to be representative of the population." Each item in the population should have an equal opportunity of being selected. Haphazard and random based selection of items represents two means of obtaining such samples. Ideally, the auditor should use a selection method that has the potential for selecting items from the entire period under engagement. The following are some of the commonly used methods for selecting samples:

1. Random-Number - Items are selected from the population on a random basis using random numbers generated by a computer or selected from a random-number table. This method is recommended in statistical samples, and is the Audit Office's primary sample selection method.

2. Systematic - This is a common approach to sample selection. The auditor must determine the population and sample size. An interval is determined by dividing the total number of items in the population by the sample size. A random starting point is then selected (digits from a dollar bill serial number are commonly used). For example, in the Human Resources audit example used above, if we determined the population consisted of 483 employees, and we wanted to sample 25 items, the sampling interval would be every 20th item. (483/25=19.32). The auditor would round up to 20. If a dollar bill with the serial number I94810483C was used to determine a starting point, we might start with the ninth employee on the list, and select every 20th employee until we reached our sample size of 25 employees. Systematic sampling can be used for both statistical and non-statistical samples.

3. Haphazard Selection - Haphazard selection consists of selecting sampling units without conscious bias. This method is acceptable for non-statistical sampling but not for statistical sampling, as the sample items might be unintentionally biased. In the Human Resources audit example, the auditor might haphazardly select personnel files from a file cabinet for testing, however, this method could be biased if the auditor selected only files that were thicker than other files in the cabinet, or selected files from only those file drawers that were easily accessible.

4. Judgmental Selection - This is not an acceptable means of selection for either statistical or non-statistical samples. This method is commonly used in non-sampling applications.

Judgmental selection is used when an auditor wishes to focus on a specific transaction type or simply look for unusual items. For example, if testing purchase orders for reasonableness, the auditor may want to select purchase orders that are issued by only certain employees. This would be considered judgmental selection and would not be representative of the population. Put another way, a judgment selection is not a valid sample option, but remains a valid test option.

A common problem in sample selection occurs when the auditor selects an item that has been voided or where a document is missing. If it can be proven that the item is voided, the auditor may skip that item and select the next one in the population to replace the voided item. If the auditee is unable to produce the voided document, or if the documentation for the test item cannot be provided, the item must be considered as an error and appropriate steps taken to investigate the occurrence. Any such instances should be adequately reviewed and fraud factors evaluated.

Determining Sample Size –

For non-statistical samples, sample size is a matter of auditor judgment. Statistical samples rely on mathematical tables to determine sample size so that quantifiable sample results can be achieved. Auditors can refer to guidance in the Audit Office's library when tables are needed, or can input the parameters into ACL for a sample size determination.

As noted earlier, the Audit Office's engagements typically use non-statistical sampling techniques. Most tests performed will be tests of controls, tests of compliance with applicable legal or departmental provisions, substantive tests of transactions, or tests to measure performance. This discussion focuses on factors influencing sample selection relevant to the types of tests listed above.

When planning a particular sample for a test of controls, compliance, or performance, the auditor must consider (AU Section 350.16):

1. The relationship of the sample to the objectives of the test.
2. The maximum rate of deviations from prescribed controls that would support the planned assessed level of control risk.
3. The auditor's allowable risk of assessing control risk too low.
4. Characteristics of the population.

It should be noted that for some tests of controls, compliance, or performance, sampling may not apply. Procedures performed to obtain an understanding of internal controls sufficient to plan an engagement do not require sampling. In addition, sampling may not apply to tests directed toward obtaining evidence about the design or operation of the control environment or a particular accounting or operations system.

When designing samples for tests of controls, compliance, or performance, the auditor should plan to evaluate operating effectiveness in terms of deviations from prescribed controls, as described by an attribute (generally Yes or No; e.g. , did the control operate?). In this context, pertinent controls are ones that are essential to the control environment and that, if ignored, would adversely affect the auditor's planned assessed level of control risk. The auditor's overall assessment of control risk for a particular assertion involves a combined judgment about the prescribed controls, deviations from controls, and the degree of assurance provided by the sample or other engagement work.

The following factors must be considered when selecting a sample size that will support the auditor's planned assessed level of control risk.

1. ***Tolerable rate***

The error rate the auditor is willing to accept before becoming concerned that a problem exists. In other words, the auditor assessed level of control risk (e.g. maximum, moderate, or low). A good gauge for this rate would be to determine how many errors would have to be discovered before the auditor would include the situation as a finding in the report, or how many errors would have to occur before the auditor would raise the planned assessed level of control risk. Establishing the tolerable rate is a matter of auditor (audit manager) judgment. The relationship between the tolerable rate and sample size is an inverse relationship. As the tolerable rate decreases, the sample size increases and vice versa.

2. ***Expected deviation rate***

The error rate the auditor anticipates will occur in the sample. The expected deviation rate is based on auditor (audit manager) judgment and takes into account such factors as results of prior engagement tests and how effectively the auditee's internal controls are operating. If performing an engagement for the first time, initially selecting a small sample to determine the expected deviation rate might be beneficial. The results of this test should be properly documented because this preliminary sample can become part of the overall sample conducted. The relationship between sample size and the expected rate of deviation is direct. A larger sample size is selected as the expected deviation rate increases.

Generally, if the expected deviation rate approaches or exceeds the tolerable rate, the auditor should plan to assess control risk at the maximum, omit the sample test of controls, and perform other substantive tests. This situation should also lead the auditor to write a finding that addresses the underlying cause of the excessive expected deviation rate.

3. ***Risk of assessing control risk too low***

This risk applies only to tests of controls. An auditor's decision with regard to the acceptable level of risk is affected by other tests the auditor performs. For example, if procedures such as inquiry or observation lead the auditor to believe controls are operating effectively, the auditor can accept a higher risk of assessing control risk too low. If, on the other hand, the only test of controls will be the sample procedure performed, the auditor should set the risk of assessing control risk too low at a low level and test an increased number of transactions. The larger the sample size, the more assurance the auditor has that the controls are operating effectively.

After determining the tolerable rate, expected deviation rate, and risk of assessing control risk too low (if applicable), the auditor should determine the sample size and document the reasoning for selecting that number. The population size generally has no bearing on the sample size, unless the population is very small.

Attributes and Deviations

In the interest of efficiency and effectiveness, many sampling procedures will test more than one attribute. Each attribute tested should be clearly defined along with the error definition or deviation criteria. In most instances, the attribute should deal with only one item or condition. Grouping numerous conditions under one attribute leads to Human Resources audit scenario, the auditor might test whether the personnel file includes all applicable information. This is a very broad attribute, since the file might properly contain a large number of forms such as the W4, a statement of position and salary rate, training certificates, performance appraisals, etc. It would be difficult to interpret sample results, if, for instance, only one form was missing from one file tested but multiple forms were missing from another file. If ensuring the proper forms are included in the personnel file is the only objective of the test, it would be proper to list each form as a separate attribute. For some tests, however, it may not be efficient to have multiple attributes. Auditor judgment is necessary to properly structure testing attributes. Inexperienced staff should consult their supervisors when setting up testing applications.

Sample Results

To aid in the analysis of sample results, it is helpful to express the number of errors found as a percentage of the items sampled. The deviation or error rate can be determined by dividing the number of errors by the total number of items tested. In many tests with more than one attribute, situations occur where some attributes may not apply to all items tested. In those situations, the auditor should indicate the attribute was "not applicable" for those test items, and not include the item in the total number tested. For instance, a test of expenditures may include an attribute for proper bidding. If one of the test items is below the bid threshold amount, the bidding attribute would not apply. In this instance, the item would not be included in the total items tested for the bidding attribute.

Any exceptions or errors noted during test work should also be evaluated in terms of fraud indicators. If additional auditing procedures are deemed necessary, the auditor should fully document the situation and what additional procedures will be performed as a result of the errors noted during the test.

Overall Conclusions

AU section 350 requires the auditor to project the results of the sample to the population and to consider sampling risk, which is the risk that the auditor's conclusions may differ if procedures were applied to the entire population rather than a sample of items from the population.

Statistical sampling uses probability theory to measure or quantify sampling risk. In a non-statistical sample, sampling risk must still be considered and restricted to a relatively low level, but cannot be quantified numerically.

Substantive Tests and Sampling Risk

Substantive tests sampling risks relate to tests of details that are often performed in conjunction with financial audits. The risk of incorrect acceptance is the risk of concluding, based on the sample, that an account balance or transaction class is not materially misstated when it is materially misstated. This risk occurs because the sample does not contain the same proportion of misstatements that the population contains.

The risk of incorrect rejection leads the auditor to conclude that a balance or class is materially misstated when, in fact, it is not. This risk occurs because the sample contains more misstatements than the population as a whole.

Control Tests and Sampling Risk

Control tests sampling risks relate to tests of controls that are more commonly encountered in audits performed by the Audit Office. The Audit Office might assess control risk too high or too low. The risk of assessing control risk too high occurs when the auditor concludes the control is operating less effectively than it actually is operating and results in the Audit Office's incorrect rejection of the auditee's internal control. The risk of assessing control risk too low occurs when the auditor concludes the control is operating more effectively than it actually is and results in the Audit Office's incorrect acceptance of the effectiveness of the auditee's internal control.

The risk of incorrect rejection, or assessing control risk too high, relates primarily to engagement efficiency since additional auditing procedures are generally performed after these conclusions are made, even though they may not be necessary. The risk of incorrect acceptance and assessing control risk too low are of greater concern since this indicates the auditing procedures used were not effective in detecting misstatements or errors, but since the procedure indicated there was no problem, additional procedures are not performed.

Dual-Purpose or Multi-Purpose Samples

Although not recommended without manager approval, in some circumstances, the auditor may design a sample that will be used for two purposes. For example, a sample may be designed to test both controls and whether transactions were recorded in the correct amount in the accounting system. Dual-purpose samples can use either statistical or non-statistical sampling.

An auditor planning to use a dual-purpose sample would make a preliminary assessment of risk related to the objectives of the test. The sample size selected for dual-purpose tests should be the larger of the samples that would otherwise have been designed for the two separate purposes. In evaluating the results of dual-purpose tests, deviations or misstatements should be evaluated separately for each purpose, using the risk levels applicable to each individual purpose.

Non-Sampling Applications

As noted earlier, the auditor might test less than 100 percent of a given population, but not intend the test to be a sample or to project the results to the population. AU Section 9350, *Sampling: Auditing Interpretations of Section 350*, provides guidance on some situations where an examination of less than 100 percent of a given population would not be considered a sample.

1. <u>It is not the auditor's intent to extend the conclusion reached by examining the items to the remainder of the items in the account balance or class.</u> This would include selecting some items to obtain an understanding of procedures performed, or to corroborate the explanation of procedures obtained in inquiry. For example, the auditee may explain the procedures performed to record cash receipts. The auditor may then test a few cash receipts to ensure the procedures explained are actually performed. The auditor may also want to test a few transactions to ensure procedures are in compliance with department policies and procedures. These types of testing would be considered a walk-through of transactions rather than a sample.

2. <u>Although the auditor might not be examining all the items in an account balance or class of transactions, the auditor might be examining 100 percent of the items in a given population.</u> For example, the auditor may be concerned that bids are not received for items purchased. The auditor feels this is not a problem

with items purchased on small purchase orders, but feels the problem might exist with larger purchase orders over $25,000. The auditor might test all purchase orders over $25,000, but perform alternate procedures to examine the smaller purchase orders. Another example is when the auditor performs cutoff tests, which involve transactions at a given time, rather than all transactions.

3. The auditor is testing controls that are not documented. Examples of this would be when the auditor observes the annual physical inventory. However, if the auditor were to select items to trace back to an inventory listing, this could be a sample.

4. The auditor is not performing a substantive test of details. Substantive tests consist of tests of details of transactions and balances, analytical review or a combination of both. In performing substantive tests, sampling is generally used only in testing details of transactions and balances.

For such procedures or any tests where the auditor does not intend to project results to the population, the auditor is still required to document the following information for each application:

1. The area being tested.
2. The objective or purpose of the test.
3. The attributes tested and the definition of deviations for those attributes.
4. The population being tested and the testing unit. (This should include procedures performed to ensure the population is complete, if applicable).
5. The number of items selected and an explanation of why that number was selected.
6. The method of selection (systematic, haphazard, judgmental, or other).
7. Analysis of test results (explanation or rate of error for each attribute and reasons or explanations of those deviations).
8. Conclusions reached (the auditor should ensure that conclusions are not overly broad and refer only to items tested).
9. Additional procedures to be performed as a result of the test, if applicable.

The following glossary of sampling terms summarizes common terms applicable to sampling.

E. GLOSSARY OF SAMPLING TERMS

Attribute Sampling

Attribute sampling should be used when the question of "how many?" is pertinent. It is used to determine the characteristics or attributes of a population. The results of attribute sampling are expressed as a percent of the type of event specified.

Attribute sampling is common when testing controls to determine if the assessed level of control risk is acceptable. Attribute sampling is also commonly used to determine if procedures are being followed. These procedures may or may not be considered control features. In these situations, a dual-purpose sample can be conducted after obtaining manager approval. The sample would test a sample unit for controls, as well as compliance with procedures.

The auditor should bear in mind that the sampling unit for control tests will be a transaction or instance (for example, a control may operate once for a batch of transactions), regardless of dollar amount. The auditor's conclusion will be based on the number of transactions or instances for which the transaction or instance was or was not properly controlled. Substantive testing, however, typically occurs after control testing and is generally based on the dollars associated with the transactions tested.

Assume that risks lead the auditor to test the operations of internal controls over 40 transactions that total $1,000,039: One $1 million transaction and 39 $1 transactions. Further assume that the control test concluded that controls were effective in 39 of the 40 transactions. The auditor would conclude that the internal controls were effective (error 1 of 40) and there would be no internal control finding. If, however, the resulting compliance/financial substantive test of the same transactions showed that the control testing error pertained to the one $1 million transaction (e.g., not properly supported), there would be a material compliance/financial finding ($1,000,000/$1,000,039).

Discovery Sampling

Discovery sampling is a type of attribute sampling that is also referred to as exploratory sampling. This type of sampling is used where evidence of a single error or instance of irregularity would call for intensive investigation. This type of sampling is frequently of value when fraud is involved, in searching for an avoidance of internal controls, or when the evasion of a regulation or performance measure is in question.

Variables Sampling

Variables sampling is used to answer the question "how much?" This form of sampling is used for populations made up of dollars, pounds, days, etc. This type of sampling is more common in substantive tests of details or account balances.

Stratified Sampling

In stratified sampling the population is divided into groups (strata), based on dollar value, size, etc. A separate sample would then be selected from each stratum. This is beneficial if the auditor wants to sample, but has a preference on the number of items to sample based on certain criteria. For example, in performing work on receivables, the auditor is more concerned with high dollar receivables and wants to ensure a sufficient number is selected. The receivables could be divided into dollar strata such as less than $25,000, $25,001 to $100,000, and greater than $100,000. The auditor could then select a sample from each stratum. Since the auditor is more concerned with the high dollar amounts, a larger sample could be selected from those strata.

Cluster Sampling

Cluster sampling is similar to stratified sampling, except the population is divided into clusters based on criteria other than dollar amount, size, etc. For example, the auditor might choose to sample from a cluster of transactions around a given date to determine if items were included in the proper financial period.

Dollar Unit Sampling

Dollar unit sampling selects dollars in the population rather than items. Larger dollar valued items have a greater probability of being selected. The most common form of this type of sampling is probability proportionate to size (PPS) sampling.

Performance Management Procedures

I. Introduction

The Office of Audits exists to support the overall mission, goals, and operations of the Georgia Department of Transportation (Department). To do this, our audit work must be efficient and effective. Performance Management is a tool to ensure that our office is operating effectively and efficiently. Performance Management should assist the Office of Audits with its overall decision making and in developing audit efficiencies.

Performance Management is measured at the office level and at the individual level. The performance metrics at the individual level are designed to roll up into the metrics measured at the office level.

II. Components

1. Performance Metrics – Office of Audits
    a. Percentage of audits completed by fiscal year end
    b. Total amount of questioned costs identified during fiscal year
    c. Average of customer service ratings during fiscal year

2. Performance Metrics – Individual Team Members
    a. Staff Auditor (3 metrics)
        i. Assignments/audits are completed on time (within assigned budgeted hours)
        ii. Completes required # of CPE hours and adopts coaching/mentoring session recommendations.
        iii. Meets adequate customer service ratings

    b. Advanced Staff Auditor/Senior Auditor
        i. Assignments/audits are completed on time (within assigned budgeted hours)
        ii. Completes required # of CPE hours and adopts coaching/mentoring session recommendations.
        iii. Meets adequate customer service ratings
        iv. Provides advisory services support to other internal offices/external entities commensurate with position.

    c. Supervisor/Assistant Office Head
        i. Individual assignments/audits and Assignments/audits of team members are completed on time (within assigned budgeted hours)
        ii. Provides advisory services support to other internal offices/external entities commensurate with position.
        iii. Develops team members and supports teamwork by providing adequate CPE classes, minimum coaching/mentoring sessions (documented), and internal training classes as needed.
        iv. Meets and ensure team members meet adequate customer service ratings

v. Effectively monitors Consultants and ensures Audit Reports/Reviews/Non-audit advisory services meets applicable Yellow Book standards and internal Quality Assurance requirements or Internal Audit Reports/Reviews/Non-audit advisory services meets applicable Yellow Book standards and internal Quality Assurance requirements.

3. On-going Monitoring – An essential part of performance management is adequate monitoring of the various performance metrics. To assist with this, our office will utilize various tools for compiling, tracking, and organizing the performance metric data –
   i. Audit Engagements – each audit engagement is assigned a designated amount of budgeted audit hours which are listed by Audits Role and Audit Phase on a Budgeted Audit Hours spreadsheet – Template 1. Each person working on the audit is required to enter the actual hours they work on an Actual Audit Hours spreadsheet – Template 3. These two spreadsheets are required to be maintained in the Audit Workpapers. Upon conclusion of the audit, a final copy will be kept by each manager (for use with PMF mid-year/year-end evaluations) and a copy forwarded to the Audits Administrator for updating of the performance management dashboard.
   ii. Assignments - each assignment is assigned a designated amount of budgeted assignment hours which are listed by Audits Role and Audit Phase on a Budgeted Assignment Hours spreadsheet – Template 2. The auditor is required to record the actual hours on the spreadsheet once the assignment is completed. The spreadsheet will be kept by the assigned manager (for use with PMF mid-year/year-end evaluations) and a copy forwarded to the Audits Administrator for updating of the performance management dashboard.
   iii. Customer Service Surveys – customer service surveys are in development.
   iv. Training/Mentoring/Coaching Logs –
      1. Internal non-CPE training - Staff members who provide training are required to complete training logs which details the hours trained attendees, topics, and a summary for the training. Once completed, the forms will be kept by the assigned manager (for use with PMF mid-year/year-end evaluations) and a copy forwarded to the Audits Administrator
      2. CPE training - Staff members who provide training are required by both internal and external sponsors. Once training is complete and certificates are provided, staff should provide a copy of the certificates to the Office Head and update their Training History Report – Template 5. Office Head also maintain individual training history and well as an Office Summary Training History - Template 4. The Office Summary Training History also monitors staff completion of the minimum annual CPE hours.
4. Mid-year Evaluations
5. Year-end Evaluations
6. Reporting
   a. Mid-Year
   b. Year-End

Office of Audits – Standard Operating Procedures

The Office of Audits – Standard Operating Procedures (SOPS) gives clarity over certain areas specific to the Office of Audits. All employees are expected to abide by all sections of the Employee's Handbook in addition to the requirements listed below.

SOP A - Attendance/Leave Usage

SOP A-1 The Office of Audits follows all departmental policies regarding leave usage. All requests for annual leave must have the prior approval of the appropriate supervisor before the leave is taken, except in cases of emergency. It will be the responsibility of the supervisor to determine if a particular situation constitutes an emergency. If the employee's presence at work on the requested leave day(s) is necessary to the functioning of the work unit and the supervisor cannot work out a satisfactory alternative, the employee's request for annual leave may be denied. Absence without proper authorization will be charged to Unauthorized Leave Without Pay.

SOP A-2 Employees are required to notify their direct supervisor in the event that they will be late, or will be absent due to a sickness or family emergency. This must be done prior to when they would normally start their scheduled work day. In the event of sickness or family emergency, the preferred method of communication is a phone call or email. In the event of a late arrival, the preferred method of communication is a phone call and/or voicemail. While email is acceptable in the event of a late arrival, it should be noted that texting (including email) while driving is illegal in Georgia. In the event that their direct supervisor is out of the office, they should notify the next level of management (assistant administrator). Unscheduled absences should be reported to your supervisor no later than 9:30 a.m. No one should make up any missed work time without prior approval from their supervisor.

SOP A-3 Sick/Annual leave should be requested within Kronos. In addition to approving the leave request within Kronos, your supervisor will place your leave on the Audit Calendar upon approval. It is your responsibility to verify that the leave request has been approved.

SOP A-4 It is the responsibility of each supervisor to review sick leave usage records of all employees under their supervision as often as necessary, but at least once every year for evidence of excessive or abusive use of sick leave. An employee may be required to report each day by telephone to the appropriate supervisor and to furnish evidence satisfactory to the supervisor for the use of accrued sick leave. The employee, however, shall not be required to provide such evidence for the use of less than seventeen (17) hours of sick leave in any thirty (30) day period unless the employee has demonstrated excessive or abusive use of sick leave. Excessive or abusive use of sick leave shall be defined as a pattern of intermittent, short term usage.

Establishment of this pattern shall include, but not be limited to, the following indicators:

a. Frequent use of sick leave in conjunction with holidays, scheduled off days, or distribution of paychecks;

b. Frequent use of sick leave when scheduled for undesirable temporary shifts or assignments, or during periods of peak workload;

c. Requesting sick leave for an absence for which annual leave has previously been denied;

d. Frequent occurrences of illness during the work day;

e. Peculiar and increasingly improbable excuses;

f. Repetitive use of less than seventeen (17) hours of sick leave in thirty (30) day periods;

g. Prior written notification of failure to adhere to procedures for approval of leave, inappropriate attendance, or inappropriate use of leave.

Each unit supervisor shall counsel those employees whose records appear excessive or abusive on the necessity for not misusing sick leave.

SOP A-5 Attendance and punctuality are considered in every employee's performance evaluation. Poor attendance and excessive tardiness are disruptive. Either may lead to disciplinary action, including dismissal.

SOP A-6 Employees are expected to attend all training provided by the Office or Department including off-site CPE training coordinated by Office management. In the event that an employee will be out of the office during this time due to a prior obligation, he or she should coordinate with the Audits Administrator to ensure that the required annual CPE hours, in compliance with Yellow Book, will be obtained by the employee at a later date.

SOP A-7 Any absence due to sickness that results in 3 or more consecutive days of sick leave requires a written doctor's excuse (see form 2230-11a3 "Medical Release Form").

SOP A-8 Any employee that reports to work exhibiting flu-like or contagious symptoms will be sent home and may be required to take sick leave (or annual leave if sick leave has been exhausted).

SOP A-9 Routine medical or dental appointments should be scheduled at least one week in advance via WFTK. In the event that changes need to be made, or a last minute appointment is scheduled, the employee should notify the direct supervisor as soon as feasibly possibly.

SOP A-10 For last minute absences due to a sickness that occurs while at work, approval is solely at the discretion of the supervisor.

SOP A-11 Temporary changes to schedules (less than 2 weeks) may only be made at the approval of and discretion of the Audits Administrator.

SOP A-12 Your lunch period must be taken between 11:00 a.m. and 2:30 p.m. You must return from lunch no later than 2:30 p.m. If you customarily take longer than 30 minutes for lunch, your work hours must be adjusted accordingly so that you complete an eight hour work day.

SOP A-13 If you will be away from your workstation to attend a meeting or conduct business for an extended period of time (1 hour or more) you should let your supervisor know and place the meeting on your Outlook Calendar.

SOP A-14 Office closings due to severe weather will be done in accordance with GDOT Policy 2112-2 Temporary Emergencies and Inclement Weather. In the event that severe weather is imminent, employee should call the following numbers for GDOT office closure information: (404) 631-1762 or toll free at 1 (855) 631-1762. Additionally, office closures will be posted to the GDOT internal/external website.

SOP B – Appearance

SOP B-1 Employees are expected to dress in manner that corresponds to their professional status.

SOP B-2 Denim should be worn only on casual Fridays. Denim is also allowed on any holidays worked, during periodic fund raisers (such as the SCCP "Blue Jean Days"), during the annual meeting and Christmas/Holiday program, or at the discretion of the Audits Administrator. Denim should be neat and clean in appearance (not stained, wrinkled, frayed or revealing, etc.) In the event that you have a scheduled meeting with a consultant or other vendor outside of the office on a Friday, or other designated "Jeans Day", you should dress in <u>business professional</u> mode of attire.

SOP B-3 Business casual is required attire for Monday – Thursday.

SOP B-3 Business professional is required attire for meeting with clients outside of the office. For men, this means a tie is required and suit jacket is preferred. Additionally, clothing should not be loud or revealing and should project a professional image.

SOP C – Conduct

SOP C-1 Staff members are expected to conduct themselves in a professional manner that best reflects the Office of Audits and GDOT at all times while conducting GDOT business. This includes representing the Office of Audits at the GDOT central office, district/field offices, all consultants and utilities' offices, off-site training, professional conferences, and during participation with the AASHTO peer review program.

SOP C-2 Crude, offensive, and hurtful language is not tolerated by the Office of Audits. Bullying of subordinates and coworkers is also prohibited. This applies to staff members, supervisors, and management.

SOP C-3 Supervisors should ensure consistency and fairness in application of all internal policies and SOPS with regards to their subordinates.

SOP C-3 Sexual harassment is expressly forbidden. It is the policy of the Audits Administrator to forward all complaints of sexual harassment immediately to the Division of Human Resources. However, in accordance with GDOT's Sexual Harassment Policy (2880-1), employees who experience or witness sexual or other unlawful harassment in the workplace may contact any of the following individuals with concerns regarding sexual harassment: their immediate supervisor, district engineer or office head, local human resources representative, district EEO representative, the Division of EEO, or the Employee Management Relations Section of the Division of Human Resources.

Employees may also file a written complaint under the provisions of GDOT Policy 2840-3, Employee Complaint Process.

Employees who believe that they have been sexually harassed or who have observed sexual harassment involving someone in their direct line of supervision may contact the Division of EEO or the Employee Management Relations Section of the Division of Human Resources.

SOP D – Communication

SOP D-1 As professionals, Office of Audits staff is expected to clearly articulate ideas, provide recommendations to various departments, and effectively interact with all levels of GDOT employees and executive management.

SOP D-2 ALL written communications to other GDOT departments, outside consultants and other vendors, should be spelled correctly, be grammatically correct, be concise, and convey a professional tone (i.e., should not be argumentative, condescending, etc.) Failure to follow this SOP can negatively impact your annual performance review.

SOP D-3 No information (reports, etc.) may be disseminated to outside parties without approval of Audits Administrator.

SOP D-4 No information (reports, etc.) may be disseminated to GDOT internal parties without approval of direct supervisor. Mass internal dissemination of reports is also prohibited.

SOP D-5 Any media inquiries or Open Records Requests will be forwarded to the Office of Communications by the Audits Administrator.

SOP D-6 Arrangements by the staff or supervisors which will bring clients and visitors* into the office and/or the conference room should be made known to the respective Assistant Office Head and Office Head in advance of the appointment. Additionally, all levels of staff should make a best effort to schedule the conference room utilizing Outlook's Scheduling Assistant.

**This does not necessarily apply to brief visits by family or coworkers for lunch, etc.*

SOP D-7 While professional disagreements may occur during the course of an assignment or audit, staff members must communicate to each other in a professional manner. *See SOP C-2.*

SOP D-8 Arguing is forbidden in front of clients or executive management. Failure to abide by this policy will result in immediate disciplinary action.

SOP E Performance of Duties

SOP E-1 Employees are expected to be engaged with their assigned tasks during working hours. As each employee completes an assigned task, the employee should notify the supervisor.

> Personal use (email, internet usage) should be kept to a minimum during assigned working hours.
>
> Breaks should be limited to two, 15 minute breaks per day.
>
> If lag time occurs, employees should take assigned training classes.

SOP E-2 Employees are expected to perform each assigned task to the best of his or her ability and to the highest quality possible.

SOP E-3 If an employee is leaving for vacation or taking an extended sick leave, he or she must notify their supervisor of the status of their assigned tasks prior to leaving. An out-of-office email notification and phone message should also be completed prior to leaving.

SOP E-4 All requests to earn comp time must be first approved by direct supervisor, Assistant Administrator, and Audits Administrator. For days that an employee has been approved for comp time, the employee must be engaged and the task must warrant the earning of comp time.

SOP F Teleworking

SOP F-1 Teleworking is a privilege, not a right. Teleworking may be suspended (temporarily or permanently) at the discretion of the Audits Administrator to ensure the goals and mission of the Office of Audits and GDOT are met.

SOP F-2 Staff members must maintain communication with office team members, supervisors and clients at all times while teleworking. This includes responding to emails and phone calls in a timely manner (within 30 minutes). Additionally, this means a staff member should be available for all team and client meetings via conference calls. Failure to maintain communication will result in suspension of teleworking privileges.

SOP F-3 Work done on a telework day must directly relate to an audit assignment or assigned duties pre-approved by the supervisor in accordance with the department's telework policy. Failure to complete teleworking assignments will result in suspension of teleworking privileges.

SOP F-04 If your scheduled telework day occurs on a day that office-wide CPE training is provided by the Office of Audits, you are required to be at training. Your teleworking day may be adjusted for that week, only at the sole discretion of the Audits Administrator.

SOP F-05 Upon approval by the Assistant Administrator and Audits Administrator, a teleworking employee may start his or her day earlier than the scheduled work day. However, the following limitations must be adhered to: (1) the employee may not start the work day prior to 6:00am in any situation, (2) the employee may not reduce the starting time for his/her work time by more than his/her typical commute time, (3) the employee may not start any later than his/her scheduled work time, and (3)the employee must end their work day by 6:30pm, unless comp time has been authorized (see below).

> See example -
>
> Sue's schedule is 8:00-4:30 with a 30 minute lunch. She has 1.5 hour commute. She can begin her teleworking day at 6:30 and must still work 8 hours.

SOP F-06 Comp time is generally unavailable during teleworking days. Any comp time on teleworking days must be approved in advance by the Audits Administrator.

SOP G Travel

SOP G-1 All Office of Audits staff members are required to abide by all state and agency travel regulations regarding requests for travel and travel reimbursements.

SOP G-2 Audit staff members are expected to abide by all SOPs and GDOT policies while traveling on GDOT business. This includes travel to client work locations and professional conferences.

SOP G-3 Staff members are required to complete internal Concur training prior to utilizing this system for travel. This generally should be completed during new employee orientation but may be done annually at the discretion of the audits administrator.

Appendix A - Office of Audits Charter

Office of Audits Charter

I. OVERVIEW

The Office of Audits exists to support the overall mission, goals, and operations of the Georgia Department of Transportation (Department). The services provided by the Office of Audits allow executive management to attest to the various federal and state agencies that the monies provided to the Department were expended in accordance with applicable federal and state laws, regulations, and provisions of contracts.

II. MISSION

The mission of the Office of Audits is to provide independent, objective assurance and advisory services based on a systematic examination of evidence to ensure that the organization, programs, activities, and functions of the Department are operating as intended. In addition, duties performed by the Office of Audits provides reasonable assurance that federal and state costs proposed and charged to the Department via contracts and agreements with contractors, consultants, and sub-grantees are accurate, reasonable and comply with all applicable federal and state laws, regulations, and provisions of contracts.

III. AUTHORITY

The Audits Administrator and designated audit staff are granted authority[1] for full, free and unrestricted access to all of the organization's functions, records, information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process, or department under review. All contracts with vendors shall contain the Department's standard "right-to-audit" language enabling the Department's auditor to have access to relevant records and information. All of the employees of the Department are required to assist the staff of the Office of Audits in fulfilling their audit functions and fiduciary duties.

[1] *Audit authority has been established by the signature of the Commissioner of the Department since 1973.*

IV. INDEPENDENCE, OBJECTIVITY, AND INTEGRITY

To provide for the independence of the Office of Audits, its personnel report to the Audits Administrator, who in turn reports directly to the Commissioner, in accordance with *Government Auditing Standards* (Chapter 3 part 3.31).

All audit activities shall remain free of influence or interference by any element within or outside the Department. To ensure independence and objectivity, audit staff shall have no direct responsibility or authority for any of the activities or operations they review. They shall not develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited or reviewed by the Office of Audits.

Each audit team member agrees to abide by all applicable auditing standards and Department policies regarding conflicts of interest. All audit team members are required to notify the Audits Administrator of any current or potential personal conflicts of interest they become aware of during the year.

Each audit team member will perform each engagement with consistency, efficiency, honesty, and quality.

V. ORGANIZATION

The Audits Administrator is responsible for the development, review and modification of audit policies, procedures, and goals for the conduct of audits. In addition, the Audits Administrator is responsible for ensuring each audit engagement is performed in accordance with appropriate auditing standards. As head of the Office of Audits, and in accordance with Department policies and procedures, the Audits Administrator is vested with the authority to hire, assign and reassign audit staff as needed to ensure the support of the department, its programs, activities, and functions.

The Office of Audits will be comprised of the following units:

Internal Audit Unit – Responsible for providing independent and objective analysis, reviews, and assessments of GDOT's business activities, operations, financial systems, and internal controls. This unit is also responsible for monitoring subrecipient compliance with audit requirements in accordance with OMB's Uniform Grant Guidance codified in 2 CFR §200.331 (f).

External Audit Unit – Responsible for providing support for contract compliance regarding GDOT professional services (consultant) contracts, and utilities and railroad agreements. This includes evaluation, review and audit of consultant contracts and expenditures to ensure compliance with Federal Acquisition Regulations. This also includes accounting system reviews and CPA work paper assessment reviews. Audit work performed by the External Audit Unit is done in accordance with 23 USC Section 112 (b)(2(B-C) and applicable Federal Acquisition Regulations.

VI. OBJECTIVES, SCOPE, AND RESPONSIBILITIES

Auditing Objectives. The objectives of the Office of Audit are (1) provide independent assurance to Department management that the organization's assets are safeguarded, (2) enhance operating efficiency, and (3) ensure that compliance is maintained with prescribed laws and management policies so as to ensure proper stewardship and oversight of public expenditures.

Scope. The scope of the Office of Audits is to determine whether the organization's risk management, internal controls, and governance processes, as represented by management, are adequate and functioning in a manner to ensure:

- Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in the federal and state constitutions, laws, and regulations and the policies and procedures of the Department.

- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

- Operations, processes and programs are consistent with established missions, objectives, and goals.

- Existing policies and procedures are updated as appropriate.
- Risks within and outside of the organization are appropriately identified and mitigated.
- Financial, managerial, and operational information is accurate, reliable, and timely.
- Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, and procedures.

Responsibilities. The Office of Audits team is responsible for performing each of its engagements in a professional manner in accordance with applicable auditing standards. This includes making special effort to accommodate the Department's, consultants', utilities', and railroads' daily operations in scheduling and conducting interviews and obtaining applicable data for testing.

Each team member is responsible for drawing objective audit conclusions based on reasonable factual evidence obtained during the course of an audit or review. Team members will make recommendations where needed. However, actual responsibility for implementation of corrective action(s) and reimbursement of questioned costs to the Department rests solely with the appropriate Division Director and Office Head of the area under review.

While broad access to the Department's records has been granted to the Office of Audits, this does not negate each audit team member's responsibility for safeguarding and ensuring the confidentiality of the Department's financial and proprietary information. Audit information may not be submitted to any outside party without the expressed consent of the Audits Administrator.

VII. REPORTING

A written audit report will be prepared by the Audits Administrator at the conclusion of each Internal Audit engagement and will be distributed as appropriate. The Office Administrator receiving the report will respond to any recommendations within 30 days and forward a copy of the response to those included on the distribution list. The response will indicate what actions were taken regarding specific report findings and recommendations. If a response is not received within thirty days, the Audits Administrator will contact the appropriate Division Director for assistance in resolving the matter.

External Audit reports will be distributed to the appropriate parties within a reasonable time of fieldwork conclusion. For contract compliance audits with questioned costs, a draft report will be issued to the appropriate office head and consultant or utility or railroad vendor who will have 60 days to provide documentation substantiating the questioned costs prior to issuance of the final report.

The Audits Administrator will submit an annual Audit Work Plan at the start of each fiscal year to the Commissioner, Deputy Commissioner, Chief Engineer, and appropriate Division Heads. This document will include a tentative Office of Audits schedule to assist the various divisions with allocating resources and people to assist with our audit work.

At the conclusion of each fiscal year, the Audits Administrator will submit an Annual Audit Report to the Commissioner, Deputy Commissioner, Chief Engineer, and appropriate Division Heads. This document will detail activities performed by each unit of the Office of Audits, Department-wide Risk Assessment results, and major deficiencies noted during our audit work.

VIII. STANDARDS OF AUDIT PRACTICE

The Office of Audits will meet or exceed *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States.

In addition, the following auditing standards will be followed, as applicable:

- *Internal Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors

- *Auditing Standards (SASs)* and *Statements on Standards for Attestation Engagements (SSAEs)* issued by the American Institute of CPAs, as applicable.

<u>Code of Ethics</u>

As auditors of the Department, Office of Audits personnel are in a position of trust and should be held to the highest ethical standards. Therefore, in addition to the *Code of Ethics for Government Service* detailed in the Official Code of Georgia (Section 45-10-1), the Office of Audits agrees to abide by the following standards of professional conduct:

- American Institute of Certified Public Accountants (AICPA) *Code of Professional Conduct*,
- Institute of Internal Auditors (IIA) *Code of Ethics*,
- Association of Certified Fraud Examiners *Code of Professional Ethics.*

IX. APPROVAL

As head of the Office of Audits, I agree to abide by and ensure that all levels of Audit management and staff members abide by the tenets of this charter.

______________________	12/14/16
Josh Nix, CPA, CFE, CGFM Office of Audits Administrator	Date

This charter is approved and all future amendments to it are to be approved by the Commissioner and will be reviewed annually and updated as required by the Office of Audits.

______________________	12/14/16
Russell R. McMurry, P.E. Commissioner	Date

Appendix B – Applicable Ethical Standards

OFFICIAL CODE OF GEORGIA ANNOTATED
TITLE 45. PUBLIC OFFICERS AND EMPLOYEES
CHAPTER 10. CODES OF ETHICS AND CONFLICTS OF INTEREST
ARTICLE 1. CODES OF ETHICS
TITLE 45. PUBLIC OFFICERS AND EMPLOYEES
CHAPTER 10. CODES OF ETHICS AND CONFLICTS OF INTEREST
ARTICLE 1. CODES OF ETHICS
O.C.G.A. § 45-10-1 (2011)

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§ 45-10-1. Establishment and text of code of ethics for government service generally

There is established for and within the state and for and in all governments therein a code of ethics for government service which shall read as follows:

CODE OF ETHICS FOR GOVERNMENT SERVICE

Any person in government service should:

I. Put loyalty to the highest moral principles and to country above loyalty to persons, party, or government department.

II. Uphold the Constitution, laws, and legal regulations of the United States and the State of Georgia and of all governments therein and never be a party to their evasion.

III. Give a full day's labor for a full day's pay and give to the performance of his duties his earnest effort and best thought.

IV. Seek to find and employ more efficient and economical ways of getting tasks accomplished.

V. Never discriminate unfairly by the dispensing of special favors or privileges to anyone, whether for remuneration or not, and never accept, for himself or his family, favors or benefits under circumstances which might be construed by reasonable persons as influencing the performance of his governmental duties.

VI. Make no private promises of any kind binding upon the duties of office, since a government employee has no private word which can be binding on public duty.

VII. Engage in no business with the government, either directly or indirectly, which is inconsistent with the conscientious performance of his governmental duties.

VIII. Never use any information coming to him confidentially in the performance of governmental duties as a means for making private profit.

IX. Expose corruption wherever discovered.

X. Uphold these principles, ever conscious that public office is a public trust.

AICPA (AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS) CODE OF PROFESSIONAL CONDUCT

The Code of Professional Conduct of the American Institute of Certified Public Accountants consists of two sections—(1) the Principles and (2) the Rules. The Principles provide the framework for the Rules, which govern the performance of professional services by members. The Council of the American Institute of CPAs is authorized to designate bodies to promulgate technical standards under the Rules, and the Bylaws require adherence to those Rules and standards.

The Code of Professional Conduct was adopted by the membership to provide guidance and rules to all members—those in public practice, industry, government and education—in the performance of their professional responsibilities.

Compliance with the Code of Professional Conduct, as with all standards in an open society, depends primarily on members' understanding and voluntary actions, secondarily on reinforcement by peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the Rules.

Other Guidance

Interpretations of Rules of Conduct consist of interpretations which have been adopted, after exposure to state societies, state boards, practice units and other interested parties, by the professional ethics division's executive committee to provide guidelines as to the scope and application of the Rules but are not intended to limit such scope or application. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing. Interpretations which existed before the adoption of the Code of Professional Conduct on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior technical committee.

Ethics Rulings consist of formal rulings made by the professional ethics division's executive committee after exposure to state societies, state boards, practice units and other interested parties. These rulings summarize the application of Rules of Conduct and Interpretations to a particular set of factual circumstances. Members who depart from such rulings in similar circumstances will be requested to justify such departures. Ethics Rulings which existed before the adoption of the Code of Professional Conduct on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior technical committee.

Publication of an Interpretation or Ethics Ruling in The Journal of Accountancy constitutes notice to members. Hence, the effective date of the pronouncement is the last day of the month in which the pronouncement is published in The Journal of Accountancy. The professional ethics division will take into consideration the time that would have been reasonable for the member to comply with the pronouncement.

A member should also consult, if applicable, the ethical standards of his or her state CPA society, state board of accountancy, the Securities and Exchange Commission, and any other governmental agency which may regulate his or her client's business or use his or her report to evaluate the client's compliance with applicable laws and related regulations.

The AICPA ***Code of Professional Conduct*** is provided at this location: http://www.aicpa.org/RESEARCH/STANDARDS/CODEOFCONDUCT/Pages/default.aspx.

IIA (THE INSTITUTE OF INTERNAL AUDITORS)
CODE OF ETHICS

The Code of Ethics states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.

Introduction to the Code of Ethics

The purpose of The Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing.

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

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control.

The Institute's Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

1. Principles that are relevant to the profession and practice of internal auditing.
2. Rules of Conduct that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

"Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who perform internal audit services within the Definition of Internal Auditing.

Applicability and Enforcement of the Code of Ethics

This Code of Ethics applies to both entities and individuals that perform internal audit services.

For IIA members and recipients of or candidates for IIA professional certifications, breaches of the Code of Ethics will be evaluated and administered according to The Institute's Bylaws and Administrative Directives. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.

Code of Ethics — Principles

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

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

2. ***Objectivity***

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

3. ***Confidentiality***

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

4. ***Competency***

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

Rules of Conduct

1. Integrity

Internal auditors:

1.1. Shall perform their work with honesty, diligence, and responsibility.

1.2. Shall observe the law and make disclosures expected by the law and the profession.

1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards).*

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services

ACFE (Association of Certified Fraud Examiners)
Code of Ethics

All Certified Fraud Examiners must meet the rigorous criteria for admission to the Association of Certified Fraud Examiners. Thereafter, they must exemplify the highest moral and ethical standards and must agree to abide by the bylaws of the ACFE and the Certified Fraud Examiner Code of Professional Ethics.

- A Certified Fraud Examiner shall, at all times, demonstrate a commitment to professionalism and diligence in the performance of his or her duties.

- A Certified Fraud Examiner shall not engage in any illegal or unethical conduct, or any activity which would constitute a conflict of interest.

- A Certified Fraud Examiner shall, at all times, exhibit the highest level of integrity in the performance of all professional assignments and will accept only assignments for which there is reasonable expectation that the assignment will be completed with professional competence.

- A Certified Fraud Examiner will comply with lawful orders of the courts and will testify to matters truthfully and without bias or prejudice.

- A Certified Fraud Examiner, in conducting examinations, will obtain evidence or other documentation to establish a reasonable basis for any opinion rendered. No opinion shall be expressed regarding the guilt or innocence of any person or party.

- A Certified Fraud Examiner shall not reveal any confidential information obtained during a professional engagement without proper authorization.

- A Certified Fraud Examiner will reveal all material matters discovered during the course of an examination which, if omitted, could cause a distortion of the facts.

- A Certified Fraud Examiner shall continually strive to increase the competence and effectiveness of professional services performed under his or her direction

Appendix C – Applicable Reporting Guidelines & Standards

Appendix C – Applicable Reporting Guidelines & Standards

The Office of Audits will meet or exceed *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States:

http://www.gao.gov/yellowbook/overview

In addition, the following auditing standards will be followed, as applicable:

- *Internal Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors

  https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx

- *Auditing Standards (SASs)* and *Statements on Standards for Attestation Engagements (SSAEs)* issued by the American Institute of CPAs, as applicable.

  http://www.aicpa.org/research/standards/auditattest/pages/sas.aspx

  http://www.aicpa.org/Research/Standards/AuditAttest/Pages/SSAE.aspx

Appendix D – Job Descriptions

Staff Auditor (DOT)

Pay Grade: I

Description of Duties: Under general supervision, the staff auditor is responsible for performing various entry-level procedures for financial and compliance audits and reviews. These duties include but are not limited to:

- Performs specific audit procedures or tasks as assigned by the in-charge auditor
- Conduct interviews with client personnel as needed and performs transactional walk-throughs to assist in the evaluation of internal controls
- Obtain prior year working papers, reports, and other documentation as necessary for completion of fieldwork
- Writes narratives and conclusions based on the findings derived from the audit procedures
- Organizes working papers to be used in writing the final audit or review report
- Assists preparing final drafts of audit and review reports

Depending on the needs of the Office of Audits, the staff auditor may be assigned to either the Internal Audit Unit or External Audit Unit.

This position requires a valid Georgia driver's license. This position will involve minimal travel.

Minimum Qualifications:

ENTRY QUALIFICATIONS:

Bachelor's degree in business administration or a related field AND One year of related experience
OR One year of experience at the lower level or equivalent position
OR Four years of experience in a related area
OR Masters' degree in business administration or a related field

AGENCY SPECIFIC QUALIFICATIONS

Education
Completion of Bachelor's degree with emphasis in accounting or closely related field from an accredited college or university

Technical Competencies:
Basic knowledge of generally accepted accounting principles (GAAP)
Basic knowledge of generally accepted government auditing standards (GAGAS or Yellow Book)
Intermediate skills in Microsoft Excel and Word

Other competencies
Possesses excellent oral and written communication skills
Possesses excellent organization skills
Possesses strong analytical skills

Ability to prioritize work activities and complete tasks within a scheduled timeframe

Ability to analyze and interpret audit data
Ability to work with others in a courteous and professional manner
Ability to learn quickly and work in a team environment

Preferred Qualifications

GPA of 3.0 or higher in accounting classes
Meets education requirements for CPA certification
Experience in auditing, financial management, or financial analysis

Advanced Staff Auditor (DOT)

Pay Grade: J

Description of Duties:

Under limited supervision, the advanced staff auditor is responsible for performing various procedures for complex audit engagements. These duties include but are not limited to:

- Conducts interviews with client personnel as needed and performs transactional walk-throughs to assist in the evaluation of internal controls
- Obtains prior year working papers, reports, and other documentation as necessary for completion of fieldwork
- Writes narratives and conclusions based on the findings derived from the audit procedures
- Organizes working papers to be used in writing the final audit or review report
- Assists preparing final drafts of audit and review report.
- May serve as Auditor-in-Charge on non-complex audits.
- May provides technical guidance and training to staff auditors as need
- May assist with providing CPE qualified training in their area of expertise
- May assist with conducting evaluation, sourcing, and implementation of specialty audit applications.
- May participates in continuous improvement initiative task forces and projects as required.

Depending on the needs of the Office of Audits, the advanced staff auditor may be assigned to either the Internal Audit Unit or External Audit Unit.

Minimum Qualifications:

Education/Experience
Completion of Bachelor's degree with emphasis in accounting or closely related field from an accredited college or university
A minimum of at least 1-3 years of audit experience is required

Technical Competencies:
Knowledge of:

- Fundamentals of public budgeting and legislative processes
- Fundamentals of governmental accounting
- Generally accepted accounting principles (GAAP)
- Generally accepted government auditing standards (GAGAS or Yellow Book)
- Federal Acquisition Regulations
- The Institute of Internal Auditor's (IIA) professional practices standard framework including: Code of Ethics, International Standards, and Practice Advisories
- Office of Audits operational policies and procedures

Understanding of:

- Fiscal/performance audit improvement methodologies
- Performance measurement principles

- Audit related quantitative methods (i.e., statistical sampling)
- Federal, state, and local codes, regulations, and policies

- Federal and state fund source structure
- Information Technology
- Management principles and practices applicable to government functions, programs and processes
- Process improvement methodologies
- Audit methodology
- Program evaluation processes and methods
- Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework

Experience with:

- Microsoft Excel and Word (intermediate to advanced skills)
- TeamWorks (PeopleSoft) FSCM and HCM
- Data analysis software such as ACL or IDEA

Ability to:

- Lead non-complex audit engagements
- Plan, direct, and coordinate single audit projects
- Provide technical guidance and training to staff auditors as needed
- Manage timelines for specific project
- Communicate effectively, both orally and in writing, to present technical information to a wide variety of individuals and groups
- Establish and maintain effective working relationships with departments, consultants, and external federal and state agencies
- Interpret and apply legal and administrative codes to audit matters
- Prepare clear and concise reports for executive management, public officials, investigative bodies, and the general public
- Establish effective working relationships with management, employees, employee representatives, and the public representing diverse cultures and backgrounds
- Treat GDOT employees, representatives of outside agencies, and members of the public with courtesy and respect
- Assess the customer's immediate needs and ensure customer's receipt of needed services through personal service or making appropriate referral
- Exercise appropriate judgment in answering questions and releasing information; analyze and project consequences of decisions and/or recommendations
- Communicate effectively with a variety of individuals representing diverse cultures and backgrounds and function calmly in situations which require a high degree of sensitivity, tact and diplomacy

Other competencies

- Possesses excellent oral and written communication skills
- Possesses excellent organization skills
- Possesses strong analytical skills
- Ability to prioritize work activities and complete tasks within a scheduled timeframe
- Ability to analyze and interpret audit data
- Ability to work with others in a courteous and professional manner
- Ability to learn quickly and work in a team environment
- Ability to apply audit standards through practical application
- Proactive in researching accounting and audit standards in order to apply as appropriate

- Strong organization and follow up skills including the ability to handle competing priorities and meet all deadlines and commitments
- Possess an appropriate combination of technical expertise in fields such as auditing, finance, technology, operations, or investigations

- Reliability
- Ability to flourish in a fast-paced, complex environment and willing to adapt to change
- Ability to give and follow instructions accurately and efficiently; proactive in asking clarifying questions to ensure work effort is directed wholly toward desired outcomes
- Solid understanding and ability to apply risk and control concepts
- Good awareness of other departments/offices within the agency with risk, control, and governance responsibilities and what is necessary for successful tactical collaboration and information sharing
- Willingness and ability to adapt to new circumstances, information, and challenges
- Ability and willingness to travel within state as necessary

Preferred Qualifications

Strongly preferred – CPA or CIA
Desired – MBA, MAcc, MPA

Senior Auditor (DOT)

Pay Grade: K

Description of Duties:

Under very minimal supervision, the senior auditor is responsible for ensuring successful completion of assigned audit engagements, from start to finish, inclusive of planning and reporting activities. As the assigned Auditor-in-Charge for a single complex audit engagement, the senior auditor is responsible for performing oversight functions and various procedures for financial and compliance audits and reviews. These duties include but are not limited to:

- Leads a team of auditors on complex audits.
- Provides technical guidance and training to auditors and staff
- Monitors audit progress and reviews/signs off on work papers
- Plans and directs all aspects of assigned audit including: budgeting, scheduling preliminary audit surveys, fieldwork, audit program and report writing, and presentation of results and recommendations for engagements as applicable.
- Utilizes multiple and complex audit methodologies and ensures that audit and advisory reports are issued in accordance with Office of Audit policies and procedures
- Assists in providing CPE qualified training in their area of expertise
- Coordinates with and reviews work of outsourced audit and advisory services vendors.
- Conducts evaluation, sourcing, and implementation of specialty audit applications.
- Participates in continuous improvement initiative task forces and projects as required.
- Makes presentations to senior management on specialty requirements, risks, findings and recommendations.

May be required to perform the functions of the lower audit levels including:

- Conduct interviews with client personnel as needed and performs transactional walk-throughs to assist in the evaluation of internal controls
- Obtain prior year working papers, reports, and other documentation as necessary for completion of fieldwork
- Writes narratives and conclusions based on the findings derived from the audit procedures
- Organizes working papers to be used in writing the final audit or review report
- Assists preparing final drafts of audit and review report.

Critical function areas a senior auditor may be assigned to include:

Internal Audit Unit – Federal Compliance Team Lead or Financial Review Team Lead

External Audit Unit – Contract Compliance Team Lead (i.e., Interim and Final Cost Audits of Utilities and A/E Consultants)

Minimum Qualifications:

Education/Experience
Completion of Bachelor's degree with emphasis in accounting or closely related field from an accredited college or university

A minimum of 3-5 years of audit experience is required.

Technical Competencies:

Knowledge of:

- Fundamentals of public budgeting and legislative processes
- Fundamentals of governmental accounting
- Generally accepted accounting principles (GAAP)
- Generally accepted government auditing standards (GAGAS or Yellow Book)
- Federal Acquisition Regulations
- The Institute of Internal Auditor's (IIA) professional practices standard framework including: Code of Ethics, International Standards, and Practice Advisories
- Office of Audits operational policies and procedures

Understanding of:

- Fiscal/performance audit improvement methodologies
- Performance measurement principles
- Audit related quantitative methods (i.e., statistical sampling)
- Federal, state, and local codes, regulations, and policies
- Federal and state fund source structure
- Information Technology
- Management principles and practices applicable to government functions, programs and processes
- Process improvement methodologies
- Audit methodology
- Project management
- Program evaluation processes and methods
- Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework
- Leadership and supervisory techniques

Experience with:

- Microsoft Excel and Word (intermediate to advanced skills)
- TeamWorks (PeopleSoft) FSCM and HCM
- Data analysis software such as ACL or IDEA

Ability to:

- Lead complex audit engagements
- Plan, direct, and coordinate multiple audit projects
- Provide technical guidance and training to others
- Manage timelines for specific projects
- Train and develop employees
- Communicate effectively, both orally and in writing, to present technical information to a wide variety of individuals and groups
- Establish and maintain effective working relationships with departments, consultants, and external federal and state agencies
- Interpret and apply legal and administrative codes to audit matters
- Prepare clear and concise reports for executive management, public officials, investigative bodies, and the general public
- Establish effective working relationships with management, employees, employee representatives, and the public representing diverse cultures and backgrounds
- Treat GDOT employees, representatives of outside agencies, and members of the public with courtesy and respect

- Assess the customer's immediate needs and ensure customer's receipt of needed services through personal service or making appropriate referral
- Exercise appropriate judgment in answering questions and releasing information; analyze and project consequences of decisions and/or recommendations
- Communicate effectively with a variety of individuals representing diverse cultures and backgrounds and function calmly in situations which require a high degree of sensitivity, tact and diplomacy

Other competencies

- Possesses excellent oral and written communication skills
- Possesses excellent organization skills
- Possesses strong analytical skills
- Ability to prioritize work activities and complete tasks within a scheduled timeframe
- Ability to analyze and interpret audit data
- Ability to work with others in a courteous and professional manner
- Ability to learn quickly and work in a team environment
- Ability to apply audit standards through practical application
- Proactive in researching accounting and audit standards in order to apply as appropriate
- Strong organization and follow up skills including the ability to handle competing priorities and meet all deadlines and commitments
- Possess an appropriate combination of technical expertise in fields such as auditing, finance, technology, operations, or investigations
- Reliability
- Ability to flourish in a fast-paced, complex environment and willing to adapt to change
- Demonstrated ability to lead a small team and ensure successful results
- Ability to give and follow instructions accurately and efficiently; proactive in asking clarifying questions to ensure work effort is directed wholly toward desired outcomes
- Solid understanding and ability to apply risk and control concepts
- Good awareness of other departments/offices within the agency with risk, control, and governance responsibilities and what is necessary for successful tactical collaboration and information sharing
- Willingness and ability to adapt to new circumstances, information, and challenges
- Ability and willingness to travel within state as necessary

Preferred Qualifications

Strongly preferred – CPA or CIA

Desired – MBA, MAcc, MPA

Audit Supervisor

Pay Grade: L

Description of Duties: Under limited supervision, serves as an assistant Office Head with supervisory responsibility for the External section of the Office of Audits; manages a group of professional auditors that are responsible for performing evaluations, reviews, and audits of all third-party consultant contracts. This includes pre-Award Negotiation Assistance, Accounting System Reviews, Overhead/Indirect Cost Rates, Incurred/Interim Cost Audits, Final Cost Audits, and CPA Work paper Assessment Reviews. This group also performs cost audits of agreements with railroads and public and private utilities.

The assistant transportation administrator assists in the establishment and implementation of department policy in program areas in accordance with statutory and professionally accepted standards; assists the Office Head in the overall planning and management of the Office of Audits.

Minimal travel (up to 25%) may be required.

Minimum Qualifications:

Entry Qualifications
Completion of a bachelor's degree in business administration, accounting, finance, or a closely related field AND Four years of professional level experience in auditing or a closely related fiscal activity, two of which must have been in a supervisory, administrative or lead worker role
OR
One year of experience equivalent to the lower level

AGENCY SPECIFIC QUALIFICATIONS

Technical Competencies:
Completion of a bachelor's degree from an accredited college or university in business administration, accounting, finance, or a closely related field AND four years of professional level auditing experience.
*Extensive knowledge of Federal Acquisition Regulations related to construction and architectural engineering contracts and contract cost principles and procedures.
*Extensive knowledge of Federal and State fund source structure.
*Strong understanding of applicable federal and state laws and regulations governing program audits.
*Strong understanding of generally accepted government auditing standards.
*Strong working knowledge of PeopleSoft financials.
*Experience in management of financial, compliance, and contracts audits performed in accordance with generally accepted government auditing standards.
*Experience developing and executing audit programs.
*Experience researching and applying generally accepted accounting principles, federal and state laws and applicable regulations during the course of an audit.

Leadership Competencies:
*Experience building effective work teams including training team members, setting performance goals, motivating and guiding team members to accomplish goals, and evaluating team member performance.
*Experience managing a diverse workforce and resolving personnel matters.

*Experience recognizing opportunities to aid in the achievement of department goals and objectives and determining the best course of action to implement departmental visions and goals with appropriate timing and responsiveness.

Other competencies
*Possesses excellent written and oral communication skills with the ability to effectively express ideas and facts to groups and individuals.
*Possesses strong analytical and problem solving skills.
*Self-motivated and results oriented.
*Strong attention to detail.
*Interacts effectively with all management levels within the organization.
*Committed to providing quality customer service.
*Demonstrated experience making sound and well-informed decisions.

Preferred Qualifications

Technical Competencies:
*CPA strongly preferred
*Demonstrated experience in management of financial, compliance, and contracts audits performed in accordance with generally accepted government auditing standards

Leadership Competencies:
*Professional experience as a Group Leader, Section Head, or above.

Other Competencies:
*Demonstrated experience innovatively adapting work methods in response to new information, changing conditions, or unexpected obstacles.

Assistant Audit Administrator

Pay Grade: P

Description of Duties: Under limited supervision, serves as an assistant Office Head with supervisory responsibility managing a group of professional auditors. The assistant audit administrator assists in the establishment and implementation of department policy in program areas in accordance with statutory and professionally accepted standards; assists the Office Head in the overall planning and management of the Office of Audits

The Assistant Audit Administrator for the External unit of the Office of Audits is responsible for performing evaluations, reviews, and audits of all third-party consultant contracts. This includes pre-Award Negotiation Assistance, Accounting System Reviews, Overhead/Indirect Cost Rates, Incurred/Interim Cost Audits, Final Cost Audits, and CPA Work paper Assessment Reviews. The unit also performs cost audits of agreements with railroads and public and private utilities.

The Assistant Audit Administrator for the Internal Unit is of the Office of Audits responsible for providing independent and objective analysis, reviews, and assessments of GDOT's business activities, operations, financial systems, and internal controls. This unit is also responsible for the audit report monitoring portion of the Department's subrecipient monitoring program, in accordance with 2 CFR§200.331(f) as well as performing agreed upon procedures and advisory services as requested by divisions within GDOT.

Minimum Qualifications:

Entry Qualifications
Completion of a bachelor's degree in business administration, accounting, finance, or a closely related field AND Four years of professional level experience in auditing or a closely related fiscal activity, two of which must have been in a supervisory, administrative or lead worker role
OR
One year of experience equivalent to the lower level

AGENCY SPECIFIC QUALIFICATIONS

Technical Competencies:
Completion of a bachelor's degree from an accredited college or university in business administration, accounting, finance, or a closely related field AND four years of professional level auditing experience.
*Extensive knowledge of Federal Acquisition Regulations related to construction and architectural engineering contracts and contract cost principles and procedures.
*Extensive knowledge of Federal and State fund source structure.
*Strong understanding of applicable federal and state laws and regulations governing program audits.
*Strong understanding of generally accepted government auditing standards.
*Strong working knowledge of PeopleSoft financials.
*Experience in management of financial, compliance, and contracts audits performed in accordance with generally accepted government auditing standards.
*Experience developing and executing audit programs.
*Experience researching and applying generally accepted accounting principles, federal and state laws and applicable regulations during the course of an audit.

Leadership Competencies:

*Experience building effective work teams including training team members, setting performance goals, motivating and guiding team members to accomplish goals, and evaluating team member performance.
*Experience managing a diverse workforce and resolving personnel matters.

*Experience recognizing opportunities to aid in the achievement of department goals and objectives and determining the best course of action to implement departmental visions and goals with appropriate timing and responsiveness.

Other competencies
*Possesses excellent written and oral communication skills with the ability to effectively express ideas and facts to groups and individuals.
*Possesses strong analytical and problem solving skills.
*Self-motivated and results oriented.
*Strong attention to detail.
*Interacts effectively with all management levels within the organization.
*Committed to providing quality customer service.
*Demonstrated experience making sound and well-informed decisions.

Preferred Qualifications

Technical Competencies:
*CPA strongly preferred
*Demonstrated experience in management of financial, compliance, and contracts audits performed in accordance with generally accepted government auditing standards

Leadership Competencies:
*Professional experience as a Group Leader, Section Head, or above.

Other Competencies:
*Demonstrated experience innovatively adapting work methods in response to new information, changing conditions, or unexpected obstacles.

Appendix E – Work Plan Templates

TEMPLATE 1

BUDGETED AUDIT HOURS

AUDIT ENGAGEMENT - Overall Project Budget	Budget Hours	Actual Hours
PLANNING		
Preliminary Survey and Planning/Research		0
Planning Meetings		0
Prepare AUP/Engagement Letters		0
Develop Audit Program		0
Entrance conference		0
Complete Statement of Independence		
Prepare a contact list		
Determine audit populate and identify sample		
Prepare Document Requests		0
Total Planning		0
FIELDWORK		
Prepare workpapers		0
Perform Audit Procedures		0
Develop Findings		0
Meetings to discuss audit findings		0
Review and Supervision		0
Clear Review Notes		0
Total Fieldwork		0
REPORTING		
Complete findings and recommendations summary		0
Prepare draft report		0
Report Review		0
Report Revisions		0
Hold exit conference and request response to audit findings		0
Distribute final report		
Document quality assurance review		
Document any additional follow-up procedures		
Total Reporting		0
Audit Total Hours		0

TEMPLATE 2

BUDGETED ASSIGNED HOURS

STAFF ASSIGNED TO AUDIT	Staff Auditor	Staff Auditor	Staff Auditor	Supervisor /Manager	Office Head	Grand Total
PLANNING						
Preliminary Survey and Planning/Research						0.00
Planning Meetings						0.00
Prepare AUP/Engagement Letters						0.00
Develop Audit Program						0.00
Entrance conference						0.00
Complete Statement of Independence						0.00
Prepare a contact list						0.00
Determine audit populate and identify sample						0.00
Prepare Document Requests						0.00
Total Planning						0.00
FIELDWORK						
Prepare Workpapers						0.00
Perform Audit Procedures						0.00
Develop Findings						0.00
Meetings to discuss audit findings						0.00
Review and Supervision						0.00
Clear Review Notes						0.00
Total Fieldwork						0.00
REPORTING						
Complete findings and recommendations summary						0.00
Prepare draft report						0.00
Report Review						0.00
Report Revisions						0.00
Hold exit conference and request response to audit findings						0.00
Distribute final report						0.00
Document quality assurance review						0.00
Document any additional follow-up procedures						0.00
Total Reporting						0.00
Audit Total Hours						0.00

TEMPLATE 3

ACTUAL AUDIT HOURS

STAFF ASSIGNED: ______________________________	Week Of: / /	Week Of: / /	Week Of: / /	Week Of: / /	Week Of: / /	Grand Total
PLANNING						
Preliminary Survey and Planning/Research						0.00
Planning Meetings						0.00
Prepare AUP/Engagement Letters						0.00
Develop Audit Program						0.00
Entrance conference						0.00
Complete Statement of Independence						0.00
Prepare a contact list						0.00
Determine audit populate and identify sample						0.00
Prepare Document Requests						0.00
Total Planning						0.00
FIELDWORK						
Prepare Workpapers						0.00
Perform Audit Procedures						0.00
Develop Findings						0.00
Meetings to discuss audit findings						0.00
Review and Supervision						0.00
Clear Review Notes						0.00
Total Fieldwork						0.00
REPORTING						
Complete findings and recommendations summary						0.00
Prepare draft report						0.00
Report Review						0.00
Report Revisions						0.00
Hold exit conference and request response to audit findings						0.00
Distribute final report						0.00
Document quality assurance review						0.00
Document any additional follow-up procedures						0.00
Total Reporting						0.00
Total Hours for the Audit	0.00	0.00	0.00	0.00	0.00	0.00

TEMPLATE 4

Office Summary Training History
Certified Professional Education (CPE)

Office of Audits - Continuing Professional Education (CPE) Summary Totals		TWO YEAR REPORTING CYCLE- CPE TOTALS					
Name	Title	July 1, 2015 - June 30, 2016		July 1, 2016- June 30, 2017		Two year results	
		# of CPE Hours	Yearly CPE Min. Met	# of CPE Hours	Yearly CPE Min. Met	Total CPE Hours	Total CPE Min. Met
	Administrator						
	Assistant Administrator, Internal						
	Assistant Administrator, External						
	Audit Program Manager						
	Audit Supervisor						
	Audit Supervisor						
	Advanced Staff Auditor						
	Advanced Staff Auditor						
	Advanced Staff Auditor						
	Staff Auditor						
	Staff Auditor						
	Staff Auditor						
	Staff Auditor						
	Staff Auditor						
	Staff Auditor						

TEMPLATE 5

Training History Report
Certified Professional Education (CPE)
________________________, Staff Auditor
Office of Audits – Two Year Reporting Period - July 1, 2015 - June 30, 2017

July 1, 2015 - June 30, 2016											
Begin Date	End Date	Course #	Course Name	Sponsor	Format	Certificate Provided	Total CPE	A&A	Other	Ethics	Fraud
						Total	0.0	0.0	0.0	0.0	0.0

July 1, 2016 - June 30, 2017											
Begin Date	End Date	Course #	Course Name	Sponsor	Format	Certificate Provided	Total CPE	A&A	Other	Ethics	Fraud
						Total	0.0	0.0	0.0	0.0	0.0