

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIA	SUBJECT: OVERVIEW OF THE AUDIT PROCESS	INDEX: 1 OF 2
			DATE: 7/09

Overview of the Audit Process: The process followed in conducting audits (or attestation engagements), submitting reports to the IIAA for approval, and issuing reports to auditee management consists of the following phases:

Audit Selection (Chapter IIIB) - The Audit Director selects audits or attestation engagements from the Annual Audit Plan approved by the IIAA prior to the start of each fiscal year. The plan may be adjusted during the year because of unanticipated audit requests or allegations of fraud, waste, or abuse made to the Fraud Hotline that require immediate attention. The Director shall keep the IIAA informed as to any changes to the plan that are needed.

Initiating the Audit (Chapter IIIC)-The Audit Director assigns staff and identifies the type of assignment (financial audit, performance audit, or attestation engagement—See Chapter IIA Government Auditing Standards). After that, the auditors shall:

- Obtain a Project Number from the Administrative Coordinator (OPM #08-04);
- Prepare an Audit Announcement Memorandum for the Director’s approval and signature;
- Complete a Certificate of Independence (OPM #09-06);
- Create a working paper file; and
- Schedule an entrance conference.

Audit Planning (Chapter IIID)-Auditors conduct a preliminary survey to familiarize themselves with the subject matter being audited by conducting interviews and reviewing information, including criteria, policies and procedures, and internal controls. They conduct a risk assessment to identify the highest risk areas requiring testing during fieldwork and identify evidence needed to support potential findings. They determine the audit objectives, scope, and methodology; staffing needs and audit schedule. (Financial Audits GAS 4.01-4.29; Attestation Engagements GAS 6.01-6.29; and Performance Audits GAS 7.01-7.84)

Audit Fieldwork (Chapters IIIE and IIIF)-Fieldwork consists of data collection, analysis, and other activities designed to address audit objectives. During fieldwork, auditors are required to obtain sufficient appropriate evidence to provide a reasonable basis for audit findings and conclusions and prepare audit documentation. Auditors must follow GAGAS Fieldwork standards for the specific type of audit being performed as described in Chapter IIIE (Financial Audits GAS 4.01-4.29; Attestation Engagements GAS 6.01-6.29; and Performance Audits GAS 7.01-7.84) Auditors shall also follow Internal Audit Division policies and procedures for fieldwork as described in Chapter IIIF.

Reporting (Chapter IIIG and IIIH) - Reporting is the preparation of the written report which communicates auditors’ findings, conclusions, and recommendations to responsible managers of the

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIA	SUBJECT: OVERVIEW OF THE AUDIT PROCESS	INDEX: 2 OF 2
			DATE: 7/09

audited entity and other appropriate officials. Auditors must follow GAGAS Reporting Standards for the specific type of audit being performed—Financial Audits GAS 5.01-5.44; Attestation Engagements GAS 6.30-6.56; and Performance Audits GAS 8.01-8.43. (See Chapter IIIG) Auditors shall also follow Audit Reporting Policies and Procedures contained in Chapter IIIH, which includes Characteristics of a Well Written Report, Stages of the Report Writing Process, Report Formats, and Review and Approval.

Report Distribution (Chapter III I)-After the audit report is approved, the Administrative Coordinator distributes the report to appropriate officials of the audited entity who can address the audit results and recommendations, and to other appropriate officials. In addition, the report is promptly made available to the public by placing it on the Internal Audit Division’s website, unless the report contains “Confidential” or “Sensitive” information.

Follow-Up (Chapter III J)- The Internal Audit Division conducts a follow-up review approximately 6 months after report issuance and tracks each recommendation until implementation. This process is described in OPM#08-12 Audit Follow-up issued March 6, 2008. Follow-up reports or memorandums are issued to the responsible managers and other appropriate officials.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIB	SUBJECT: AUDIT SELECTION	INDEX: 1 OF 3
			DATE: 7/09

Audit Selection: Audits and attestation engagements are selected from the Annual Audit Plan, which is submitted to and approved by the IIAA prior to the start of each fiscal year. The Division also receives audit requests from managers within the County, Frederick County Public Schools, and Frederick Community College.

Developing the Annual Audit Plan

Annually, the Internal Audit Division Director sends a risk assessment questionnaire to managers within the three entities and performs a risk assessment taking into consideration input received from the managers and audit requests. The Director then prepares a Strategic 5-Year Plan that identifies potential audit areas based on risks within each entity. The risk assessment identifies certain divisions and departments; and programs, activities, or functions within them; where the probability of something going wrong and the exposure, or cost, of something going wrong, is the greatest. Examples of such risks that should be considered are business disruption risk, customer service risk, data integrity risk, financial/external report misstatement risk, fraud risk, legal and regulatory risks, and physical harm risk.

When assessing risks, the following factors should also be considered:

- **Significance:** Potential for savings/service improvement, risk of loss or abuse due to large expenditures or inherent program risk, materiality, and volume of activity
- **Sensitivity:** Interest of management, public or the media; social, environmental or economic impact; and confidentiality of data
- **Susceptibility:** Evidence of problems or wrongdoing; impact from possible non-compliance with laws, regulations, policies; changes in key personnel or operations; perceived need for new systems, procedures; and lack of performance measures and system for monitoring
- **Prior Audit Coverage:** Prior significant findings, lack of recent audit

The Strategic 5-Year Plan will reflect each audit area, the risk rating, the year the audit is tentatively scheduled, and whether the planned audit was requested. Using the Strategic 5-Year Plan, the Director prepares the Annual Audit Plan to focus resources on the highest risk areas, any mandated audits, and audit work that is required to support external auditors. The plan also includes non-audit services such as follow-up reviews and allows time for unanticipated audit requests or allegations of fraud, waste, or abuse made to the Fraud Hotline that requires immediate attention. It also includes time to complete audits started from the prior fiscal year. The Annual Audit Plan will reflect each area to be audited and budgeted staff hours for each of the three entities.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIB	SUBJECT: AUDIT SELECTION	INDEX: 2 OF 3
			DATE: 7/09

The Director submits the Strategic 5-Year Plan and Annual Audit Plan to the IIAA for approval. Once the audit plans have been approved by the IIAA, the Director will forward them to members of the Board of Education, Frederick Community College Board of Trustees and Board of County Commissioners of Frederick County and management, and the external auditors for each entity. The Director shall offer to brief each entity on the audit plans.

After the beginning of the fiscal year, the Director selects audits, attestation engagements, and non-audit services from the Annual Audit Plan. The Director considers the skills of available staff, coverage provided to each of the three entities, and mandated audit completion or report issuance dates. The Director shall keep the IIAA informed as to any changes to the plan that are needed.

Requests for Audits or Other Services

Each year, when risk assessment questionnaires are sent out, the Internal Audit Division includes a form for managers to use to suggest an area for audit (See Form 2 Audit Suggestion Form) The Director reviews each request and incorporates them into the audit plans pending the merit of the request, availability of audit hours, and technical expertise of the staff. The Director summarizes the audit requests received and recommends to the IIAA which ones should be included in the plans.

Requests for audits or other services, such as providing technical advice on internal controls contained in a written procedure, are also received during the year. All requests must be in writing to the Internal Audit Division Director. Requests for consulting services, non-audit services, will be reviewed in accordance with Chapter IID, Independence.

The IIAA's policy, as stated in Chapter 1A, Statement of Authority and Responsibility, is that requests for audits deemed to be politically motivated, not within the IIAA's scope or authority, or beyond the expertise of the Internal Audit Division will not be approved for performance. Also, as stated in Chapter IID, Independence, the Internal Audit Division will only provide non-audit services that do not impair auditor independence, as described in Sections 3.26 and 3.27 of the *Government Auditing Standards* July 2007 Revision.

The Internal Audit Division Director shall have the authority to approve or disapprove all requests for audit or other services, which are estimated to require less than thirty-five (35) hours to perform.

All other requests for audit or consulting services requiring 35 hours or more to perform must be approved or disapproved by the IIAA. Prior to disapproval of any request that will require less than 35 hours to perform, the Director shall consult with the Chair of the IIAA. In addition, all disapproved special requests will be reviewed by the IIAA at its monthly meetings. If a request originally estimated to require less than thirty-five (35) hours to complete cannot be completed in that time, the Director will seek approval from the IIAA prior to continuance of work on the request.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIB	SUBJECT: AUDIT SELECTION	INDEX: 3 OF 3
			DATE: 7/09

It is the policy of the Board of County Commissioners (adopted November 9, 1982) that a special audit of any agency fund administered by an elected official be conducted by the IIAA whenever a change in elected official occurs. The audit shall cover the period from the date of the latest audit of Frederick County's financial statements to the last day in office of the outgoing elected official.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIC	SUBJECT: INITIATING THE AUDIT	INDEX: 1 OF 2
			DATE: 7/09

Initiating the Audit: The following tasks are required before beginning an audit or attestation engagement:

Assign Staff:

The Internal Audit Division Director, in consultation with the Audit Manager, assigns staff and determines whether the assignment is a financial audit, performance audit, or attestation engagement. As stated in Chapter IIF, Competence, the Director is responsible for ensuring that staff assigned to conduct an audit or attestation engagement under GAGAS collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. (GAS 3.43) Outside consultants are used when specific technical skills, such as skills to audit IT systems, are needed. The Director, in consultation with the Audit Manager, reevaluates the staffing needs at the end of the Planning phase of the audit.

Obtain a Project Number:

OPM#08-04 issued on November 13, 2007 contains the procedures for auditors to obtain a project number from the Administrative Coordinator. The project number and the budgeted hours included in the Annual Audit Plan approved by the IIAA are then entered in the Internal Audit Time Tracking System. As stated in OPM#08-04, the entrance conference date is considered the start of the audit.

Prepare an Audit Announcement Memorandum

The lead auditor should prepare an Audit Announcement Memorandum (See Form 4) for the Director's approval and signature at least two weeks prior to beginning the audit. The memorandum should contain the objective and scope of the audit and the tentative start of the assignment. Management should be informed that the objective and scope may be revised after the completion of our preliminary survey, interviews, and risk assessment and they will be notified of any revisions. For recurring financial audits, an e-mail audit notification memorandum from the Director to management officials explaining the objective, scope, and timing of the audit will suffice.

For non-recurring audits, the lead auditor shall complete and attach an Audit Questionnaire (See Form 5) to the Audit Announcement Memorandum to obtain background information from the auditee's management on the subject matter of the audit (i.e. procedures, criteria, goals, budgets, plans, management controls etc.). The questionnaire should be tailored to the specific audit topic. In addition, the lead auditor attaches an "Understanding the Audit Process" form, which discusses the purpose of an audit, how an audit area is selected for review, the audit process, the report process, and audit follow-up. (See Form 6)

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIC	SUBJECT: INITIATING THE AUDIT	INDEX: 2 OF 2
			DATE: 7/09

Prepare a Certificate of Independence

Prior to the start of the audit, each auditor, including the Audit Manager and Audit Director, shall complete and sign a Certificate of Independence and include them in the working papers. (See Chapter IID, Independence: and OPM# 09-06 issued October 31, 2008). The lead auditor is responsible for ensuring that the Certificates of Independence are included in the working papers. If the auditors plan to use the work of a specialist, the auditor shall have the specialist sign the Certificate of Independence-Specialist form contained in OPM#08-07 issued December 14, 2007, and include the form in the working papers.

Also, as required by OPM#09-06 issued October 31, 2008, prior to the start of each audit or attestation engagement, the lead auditor shall check the Non-Audit Services Log maintained by the Administrative Coordinator to determine if any non-audit services have been performed that relate to the audit to be conducted, and whether any supplemental safeguards are needed.

Establish a Working Paper File

The Workpaper Index is used to establish the working paper file and to ensure that all required working papers are included. (See Form 3)

Schedule an Entrance Conference

The lead auditor is responsible for scheduling an entrance conference with the person(s) responsible for the area under audit. As stated in OPM#08-01 issued October 17, 2007, the lead auditor shall advise the Audit Manager and Director prior to scheduling the interview so they can attend. For non-recurring audits, scheduling an entrance conference takes place after receiving the completed Audit Questionnaire from the auditee. For recurring audits, where an Audit Questionnaire is not used, the lead auditor schedules an entrance conference promptly after the auditee managers are notified of the audit.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIID	SUBJECT: AUDIT PLANNING	INDEX: 1 OF 4
			DATE: 7/10 Revision to Policy 7/09

Audit Planning: *Government Auditing Standards* require auditors to adequately plan their work. They must plan the audit to reduce audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate to support their findings and conclusions. Auditors shall review the standards to be followed for planning and conducting audits for the specific type of assignment. (Financial Audits GAS 4.01-4.29; Attestation Engagements GAS 6.01-6.29; and Performance Audits GAS 7.01-7.84) Auditors shall use the Quality Assurance Checklist to ensure that all standards related to audit planning are followed. (See Form 1)

The main purpose of the Planning Phase is to gain an understanding of criteria, policies and procedures, and internal controls and identify the highest risk areas requiring testing during fieldwork which may lead to potential audit findings. At the completion of this phase, auditors prepare an audit program. The audit program shall include the audit objectives (what the audit is intended to accomplish), scope (the boundary of the audit such as a particular program or aspect of a program, period of time that will be reviewed, locations that will be included), and methodology (nature and extent of testing).

The steps in the Planning Phase include (1) holding an entrance conference, (2) performing audit planning steps, (3) preparing an audit program, and (4) obtaining management approval.

Auditors shall comply with OPM#09-03, Revised Planning Procedures, issued on September 19, 2008, which streamlined the planning process by limiting the Audit Risk Assessment to no more than two pages. **The planning phase should take between 8 to 10 weeks.** Approval must be received from the Audit Manager if more time is needed. **(See OPM No. 10-01)**

Holding an Entrance Conference

The purpose of the entrance conference is to explain the intent of the audit and to establish a good working relationship with the auditee's management. To prepare for the entrance conference, the lead auditor shall fill out an Entrance Interview Worksheet which includes an agenda for the entrance interview. (See Form 7)

The entire audit team, including the Audit Director and/or Audit Manager shall attend the entrance conference with senior management representatives of the division or department to be audited. The Director and/or Audit Manager shall introduce the auditors and explain the objectives and scope of the audit; the major activities of each phase of the audit—survey, fieldwork, and reporting; audit milestones, reporting procedures, and the recipients of the final report. The Director and/or Audit Manager shall explain our practice of briefing management during the audit to keep them informed of issues or concerns that we may have. The auditors shall ask for clarification of information

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIID	SUBJECT: AUDIT PLANNING	INDEX: 2 OF 4
			DATE: 7/10 Revision to Policy 7/09

provided by the auditee in the Audit Questionnaire and request input from management of special concerns, including the risks of fraud. Arrangements shall be made for access to the division or department's information systems, if necessary, and for use of the division's equipment, such as copiers and computers. The auditors shall document the entrance conference in the working papers and include a list of those who attended.

Performing Audit Planning Steps

At the start of the audit, the auditor documents basic information on the Audit Planning Results Memorandum. (See Form 9) This information includes the preliminary audit scope and objective, staffing, start date, budgeted hours, key audit contacts, current operating environment, use of statistical sampling programs, and planned area of emphasis.

Auditors shall complete, initial, and cross-reference all steps included in the Standard Audit Program, Section A. Planning, to the applicable working papers. (See Form 8) The checklist ensures that auditors:

- Read applicable requirements contained in the Government Auditing Standards based on the audit type (financial, attestation, or performance audit)
- Review the most recent Internal Audit Division audit report and the status of prior recommendations;
- Determine whether we can rely on work performed by other auditors and perform appropriate tests to provide a sufficient basis for such reliance;
- Review background information including policies, procedures, laws, regulations, mission statement, criteria, goals, and organization chart;
- Interview key staff to obtain an understanding of management controls and perform a walk-through as appropriate;
- Test the reliability of computer-processed data (See Chapter IV, OPM#08-13, Data Reliability, issued March 6, 2008);
- Conduct a risk assessment to identify major risk factors, taking into consideration the possibility of non-compliance with laws and regulations and fraud, and to determine which risk factors warrant testing during the audit; and

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIID	SUBJECT: AUDIT PLANNING	INDEX: 3 OF 4
			DATE: 7/10 Revision to Policy 7/09

-Finalize the audit objectives, scope, and methodology.

Auditors shall finalize the Audit Planning Results Memorandum by providing a conclusion on internal controls, identifying any modifications to the audit scope and objectives, and describing the planned audit methodology based on the results of the risk assessment. (See Form 9) The memo shall include any issues related to the lack of sufficient, appropriate evidence needed to address the audit objectives. The Audit Planning Results Memorandum shall also include any actions to reduce audit risk,¹ such as increasing the scope of work, adding experts, adding additional staff, changing the methodology to obtain additional evidence, or aligning the findings and conclusions to reflect the evidence obtained.

Preparing an Audit Program

At the completion of the Planning Phase, if further audit work is not necessary, the auditor submits a **NO GO DECISION MEMORANDUM** to the Audit Manager explaining why. (See Form 10) The form requires approval of the Audit Manager and Audit Director. The Audit Director shall communicate this decision to the auditee and document such communication in the working papers.

If further audit work is necessary, auditors shall prepare a Detail Testing Program to address the audit objectives. (See Form 11) The program shall include the audit objective(s) as stated in the Audit Announcement Memorandum (See Form 4), or the revised objectives as stated in a revised Audit Announcement Memorandum. The program shall also include specific testing objectives and procedures that will answer the stated, or revised, audit objectives.

The testing objectives and procedures to be performed will be based on the risk assessment performed during the planning phase. Auditors shall determine the amount and type of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives and plan audit work. Auditors shall design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements significant to the audit objectives. Auditors shall also assess risks of potential fraud occurring that is significant within the context of the audit objectives.

¹ Audit risk is the risk that auditors will not detect a mistake, inconsistency, significant error or fraud in the evidence supporting the audit. (GAS 7.05)

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIID	SUBJECT: AUDIT PLANNING	INDEX: 4 OF 4
			DATE: 7/10 Revision to Policy 7/09

Obtaining Management Approval

Auditors shall submit the Planning working papers and Detail Testing Program to the Audit Manager for approval. If the audit objectives and scope have changed from those in the Audit Announcement Memorandum, the auditee shall be notified in writing of the change before the start of audit testing. The Audit Manager and Audit Director shall review and approve the Detail Testing Program to ensure that (1) the announced, or revised, audit objectives are identified in the program, (2) specific testing objectives and tests address the announced or revised objectives, and (3) the amount and type of evidence being reviewed is sufficient and appropriate to address the audit objectives. They will make any staffing and budget adjustments needed to complete the audit.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIE	SUBJECT: AUDIT FIELDWORK STANDARDS	INDEX: 1 OF 3
			DATE: 7/09

Audit Fieldwork Standards: Once the Audit Manager and Audit Director approve the audit program, auditors begin fieldwork. It is the Internal Audit Division's policy to follow the Fieldwork Standards contained in the 2007 revision to the *Government Auditing Standards* (GAGAS) for the type of assignment (Financial Audit, Attestation Engagement, or Performance Audit). <http://www.gao.gov/new.items/d07731g.pdf>

Auditors must continually focus on ensuring that audit work is performed in accordance with GAGAS. Auditors should discuss any anticipated departures from GAGAS with the Audit Manager and Audit Director and shall document any departures from GAGAS and the impact on the auditor's conclusions. Auditors shall follow policies and procedures in this audit manual that implement such standards (See Chapter IIID, Audit Planning; and Chapter IIIF, Audit Fieldwork Policies and Procedures), and Operating Procedure Memos issued by the Audit Director.

Auditors shall review the Quality Assurance Checklist and use it as a guide to ensure that all Fieldwork Standards and internal policies and procedures are followed. (See Form 1) This checklist requires signatures by the lead auditor, Audit Manager, and Audit Director. This checklist must be completed and signed prior to submitting final audit reports to the Interagency Internal Audit Authority (IIAA) for approval.

For all types of assignments, GAGAS require that:

- Sufficient staff and specialists with adequate collective professional competence are assigned to perform the audit. (GAS 3.40, 7.12d, 7.44)
- Work shall be adequately planned, documented, and supervised. (GAS 4.03a, 4.19, 6.04, 7.06, 7.52, 7.77-7.84)
- Auditors shall obtain a sufficient understanding of internal control (GAS 4.03b, 6.10-6.11, 7.11b, 7.16-7.22)
- Auditors shall prepare a written plan for each audit or attestation engagement and perform procedures to achieve the audit or engagement objectives and update it as necessary. (GAS 4.05, 4.06, 6.22, 7.06-7.07, 7.12f, 7.50-7.51)
- Auditors shall obtain sufficient¹, appropriate² evidence to provide a reasonable basis for their findings and conclusions. (GAS 4.01b, 4.03c, 6.04b, 7.39-7.40, 7.55-7.71)

¹ Sufficiency relates to the amount of appropriate evidence.

² Appropriate relates to the quality, relevance, reliability, and validity of the evidence.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIE	SUBJECT: AUDIT FIELDWORK STANDARDS	INDEX: 2 OF 3
			DATE: 7/09

- Auditors shall develop the elements of findings: criteria, condition, cause, and effect or potential effect. (GAS 4.14-4.18, 6.15-6.19, 7.37-7.38, 7.72-7.76)
- There must be evidence of supervisory review of work that supports the auditor's findings, conclusions, and recommendations, before report issuance. (GAS 4.20, 6.21c, 7.80c)
- If an audit or attestation engagement is terminated, auditors shall document work done to date and explain why it was terminated. Auditors shall determine whether and how to communicate the reason for termination to the auditee. (GAS 4.08, 6.08, 7.49)

Since the Internal Audit Division primarily conducts performance audits, specific fieldwork standards for Financial Audits and Attestation Engagements are not restated in this chapter. However, auditors shall follow GAS 4.01-4.29 for Financial Audits and GAS 6.01-6.29 for Attestation Engagements.

The key requirements contained in the GAGAS Fieldwork Standards related specifically to Performance Audits are summarized as follows:

Performance Audits (GAS 7.01-7.84)

Auditors shall plan and document audit work necessary to define the objectives, scope and methodology so that their work will provide reasonable assurance that sufficient, appropriate evidence will support their conclusions. (GAS 7.06-7.10) Auditors shall communicate an overview of the objectives, scope, methodology, and timing of the audit and planned reporting to management and other appropriate officials and document such communication. (GAS 7.46, 7.48) Auditors shall evaluate whether to use the work of other auditors or experts. (GAS 7.41-7.42, 7.45) Auditors shall prepare a written audit plan to address the audit objectives and update the plan to reflect significant changes. (GAS 7.06, 7.12f, 7.50)

Auditors shall assess significance and audit risk when defining audit objectives and scope. (GAS 7.07) Significance is defined as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. (GAS 7.04) Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. (GAS 7.05)

Auditors shall plan the audit to reduce audit risk to an appropriate level to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. (GAS 7.07) To assess audit risk, auditors shall gain an understanding of the nature and profile of the programs and needs of potential users of the report; internal control as it relates to the

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIE	SUBJECT: AUDIT FIELDWORK STANDARDS	INDEX: 3 OF 3
			DATE: 7/09

specific objectives and scope of the audit; information system controls; legal and regulatory requirements, contract provisions, and/or grant agreements, potential for fraud and abuse that are significant within the context of the audit objectives; and the results of previous audits. (GAS 7.11)

Auditors shall identify potential criteria and sources of evidence, and determine the amount and type of evidence needed given audit risk and significance. (GAS 7.12a, 7.12b) When auditors conclude that sufficient, appropriate evidence is not available, auditors shall evaluate whether internal control or other program weaknesses are the cause. (GAS 7.40) If auditors identify uncertainties or limitations in evidence, they shall apply additional procedures to strengthen the evidence, redefine the audit objectives or scope to eliminate the need for the evidence, or revise the findings and conclusions accordingly. (GAS 7.71) Auditors shall assess the sufficiency and appropriateness of computer-processed information. (GAS 7.65)

If there are indications that fraud or abuse may have occurred that are significant to the audit objectives, the auditors shall extend audit steps and procedures as necessary to determine whether the fraud or abuse has occurred and its effect on the audit findings. (GAS 7.32) If the potential fraud is not significant to the audit objectives, auditors may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. (GAS 7.32) If auditors pursue indications of fraud, illegal acts, and violations of provisions of contracts or grant agreements, or abuse, auditors shall take appropriate action to avoid interfering with investigations or legal proceedings. (GAS 7.35)

Auditors shall prepare audit documentation relating to planning, conducting and reporting before issuing the report. (GAS 7.77) Auditors shall provide enough detail for an experienced auditor to understand the nature, timing, extent and results of work, evidence obtained, sources of evidence, and auditors conclusions and significant judgments. (GAS 7.77)

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIF	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 1 OF 7
			DATE: 7/09

Audit Fieldwork Policies and Procedures: In addition to complying with GAGAS (See Chapter IIIE), auditors shall comply with the Division’s policies and procedures when performing fieldwork.

The policies and procedures relates to:

- Conducting the Audit;
- Preparing Working Papers;
- Obtaining Supervisory Approval; and
- Safeguarding and Retaining Working Papers.

➤ **Conducting the Audit**

Auditors shall conduct fieldwork necessary to complete the steps in the approved detail testing program. (See Form 11) If auditors determine that steps in the audit program are not needed, or additional steps should be added, they shall obtain the approval of the Audit Manager and Audit Director. When completing audit steps, auditors shall ensure that they verify statements made by auditee staff and managers to supporting documentation. Auditors shall also verify the results of their analyses with staff and management.

To assess the sufficiency and appropriateness of computer-generated data, auditors shall follow OPM#08-13, Data Reliability, issued March 6, 2008 that requires completion of a Data Reliability Checklist. Auditors shall contact the external auditors to determine whether the external auditors have tested controls over the information system generating the data and determine if we can rely on their work if controls were found to be effective. When computer-generated data are used during an audit, but such data are not significant to the findings or conclusions, auditors do not need to verify the data. However, they should note the source of the data in the working papers and the report.

Auditors shall obtain supervisory “buy-in” on the method to be used for selecting samples. Auditors shall select a sample of transactions to test, usually using sampling software programs that our Division maintains. Auditors shall document the sampling methodology in the working papers.

If auditors find that evidence that is significant to the audit findings and conclusions have limitations or uncertainties, they shall promptly notify the Audit Manager and Audit Director for instructions on applying additional procedures as appropriate. Such procedures include seeking independent corroborating evidence, redefining the audit objectives or limiting the scope, or presenting the findings and conclusions so that supporting evidence is sufficient and appropriate. (GAS 7.71)

Auditors shall communicate with auditee staff and management throughout the audit to discuss their potential findings and recommendations. If needed, the auditors shall hold an interim meeting with

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III F	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 2 OF 7
			DATE: 7/09

auditee management to discuss the status of the audit and issues found to date. If audit findings require immediate management attention, the auditors shall promptly advise the Audit Manager and Audit Director, who will provide guidance on the need for an interim meeting with the auditee and the need for a management letter. The Audit Director shall advise the Interagency Internal Audit Authority (IIAA) of the findings and the Division’s plans to issue a management letter.

Auditors shall be alert to indications of fraud, waste, or abuse and immediately report any indications of irregularities or illegal acts to the Audit Manager and Audit Director. The Director shall promptly consult with the IIAA Chair and the County Attorney’s Office to determine the appropriate course of action.

➤ **Preparing Working Papers**

Working papers that document audit work are an essential element of audit quality. They represent the principal support for the audit report, aid auditors in conducting the audit, and allow for supervisory review of audit quality. Working papers shall provide reasonable assurance that evidence is sufficient and appropriate to support the auditors’ findings and conclusions.

All audit work including discussions, descriptions of systems/operations, sampling etc. shall be documented in the working papers. Any records examined during the audit should be described in sufficient detail to allow the reviewer to locate and examine the same records. Any audit exceptions noted should be clearly explained with a reference to the working paper number where the exception occurred. Extraneous information should not be included. GAGAS does not require a copy of every document examined.

However, as required by GAGAS, auditors shall provide enough detail for an experienced auditor to understand the nature, timing, extent and results of work, evidence obtained, sources of evidence, and auditors conclusions and significant judgments. This means that working papers should “stand alone” without the need for auditors to have to explain what is on the working paper. For financial audits, documentation shall also show that the accounting records agree or reconcile with the audited financial statements or other audited information.

For attestation engagements, in addition to other documentation requirements explicitly addressed in GAS and AICPA standards, auditors shall document:

- The objectives, scope and methodology of the audit/engagement;
- The work performed to support significant judgments and conclusions, including descriptions of transactions and records examined;

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III F	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 3 OF 7
			DATE: 7/09

- Evidence of supervisory review, before the engagement report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the engagement report; and
- The auditor's consideration that planned procedures are designed to achieve objectives when evidential matter obtained is highly dependent on computerized information systems and is material to the objective, and the auditors are not relying on the effectiveness of internal control over those computerized systems that produced the information.

The following standards should be followed for working paper documentation.

The heading of each working paper or series of working papers shall include the title of the audit, title of the working paper, and audit period. If a working paper is a write-up of a discussion, the date of the discussion shall be included in the title.

A working paper number should be placed in the bottom right corner of all working papers, with the exception of double-sided working papers where the number shall be placed on the bottom left corner. The auditor's initials and date prepared should appear above the working paper number. The supervisor's initials and date shall be placed above the auditor's initials and date¹.

Each series of working papers shall identify the purpose, source, scope and methodology, and conclusion:

Purpose-Why the working paper was prepared (i.e. To determine...)

Source-Who provided the information or where it was obtained. Working papers representing schedules, excerpts from procedures manuals or other information received from the auditee or a third-party should reflect the source of the information.

Scope-The boundary of the audit test (i.e. time period of test, specific program or aspect of a program, location)

Methodology-What steps were done to accomplish the purpose (include sampling methodology)?

Conclusion(s)-The conclusion(s) of each series of working papers should clearly relate to the purpose of the working paper(s). Conclusions must be based on reasonable deductions from sufficient, appropriate evidence documented in the working paper or series of working papers.

¹ Supervisors shall initial and date each working paper or series of working papers reviewed in accordance with OPM # 08-02, Supervisory Review, issued on October 19, 2007.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III F	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 4 OF 7
			DATE: 7/09

Auditors shall cross-index facts, figures, statements from one working paper to a related working paper and to working paper summaries and the audit report. Working papers should not have unexplained comments, calculations, or marks and should be cross-indexed to summary working papers that clearly identify the purpose, scope, methodology, and conclusion of the work done. Cross-indexing should be both ways to show a direct link between working papers, and to the report. Complete and accurate cross-indexing facilitates review and preparation of the report and reduces the risk of an inaccurate report. Cross-indexing of reports is discussed in OPM#08-05 issued November 13, 2007, Quality Control Over Report Preparation.

In conducting fieldwork, auditors need to make sure that information gathered provides adequate support for the audit findings. The framework widely recognized in government auditing as the best approach for developing and presenting audit findings is the “Five Elements of a Finding,” described as follows:

Condition - (“What is”) Condition is the existing state of affairs and represents a discrepancy between condition and criteria, or “what should be”.

Criteria - (“What should be”) Criteria are standards used to measure performance. Criteria can be in the form of laws or regulations, industry standards, statistics and or historical data.

Cause - (“Why did it happen?”) Cause is the explanation for the deviation between condition and criteria. Identifying cause is important in order to determine what action is needed to correct the problem

Effect - (“What is the adverse impact?”) Effect represents the impact of the discrepancy between condition and criteria. Effect is frequently stated in quantitative terms such as loss of dollars or productivity.

Recommendation - (“What should be done?”) The auditors make recommendations to management on actions needed to correct the deficiency. A recommendation is usually the inverse of the cause.

The Draft Audit Condition form should be used to identify potential findings. (See Form 12) The form should be used during each audit phase, including the survey, to help identify potential findings. If a draft finding is later determined not to be a finding that the auditors include in the audit report, they shall explain why on the form.

Working papers shall be organized in accordance with the Workpaper Index. (See Form 3)

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIF	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 5 OF 7
			DATE: 7/09

Auditors shall prepare summary working papers containing conclusions for each testing objective, as well as for the announced audit objectives. These summaries shall be cross-indexed to related working papers.

➤ **Obtaining Supervisory Approval**

Chapter IIG, Internal Quality Control, describes the Internal Audit Division’s policies and procedures for supervisory review of work, which includes periodic meetings with staff to discuss the status of the audit or attestation engagement. In addition, Monthly Project Reports are provided to the Audit Manager and Audit Director in accordance with OPM #09-04, issued October 10, 2008.² OPM#08-06 issued November 15, 2007 requires that auditors obtain approval from the Audit Manager when it is anticipated that milestones will not be met or total budgeted hours will be exceeded by 10 percent or more. It is incumbent upon auditors to request and justify additional time before the budget for the audit or attestation engagement is exceeded. In cases where there is a question about the need to extend the budget, the Audit Director shall make the final determination for approving the extension.

At the completion of fieldwork, auditors shall complete and initial all steps in the Detail Testing Program (See Form 11) and provide references to the working papers. Auditors shall complete all working papers and submit them to the Audit Manager prior to issuance of the discussion draft. All working papers prepared after the discussion draft, such as a write-up of an exit conference, shall be submitted to the Audit Manager for review and approval prior to issuance of the draft and final reports, as appropriate. The Audit Manager’s review is conducted to ensure that all steps in the Detail Testing Program have been completed, the audit was performed in compliance with GAGAS and this audit manual, and that there is sufficient, appropriate evidence to support the auditor’s opinions and conclusions. The Audit Manager shall sign off on the Detail Testing Program after ensuring the completion of all steps.

The Audit Manager shall follow OPM#08-02, Supervisory Review, issued October 19, 2007 to ensure that working papers are promptly reviewed and that such reviews are documented. The Audit Manager shall initial the completion of each step in the audit program. The Audit Manager or Audit Director shall provide supervisory notes and ensure that comments have been satisfactorily addressed prior to issuance of the draft report. (See Form 13) The Audit Manager will maintain these comments until after the peer review report is issued covering the issue date of the audit report.

At the end of the audit, the audit team shall hold Message Meetings with the Audit Manager and Audit Director to discuss the findings, recommendations, format, content, and message of the report.

² OPM#09-04 revised OPM#08-06-08.06.3.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIF	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 6 OF 7
			DATE: 7/09

(See OPM #09-02, Message Meeting, issued September 11, 2008). The auditors shall document the Message Meetings in the working papers.

When a Discussion Draft is approved by the Audit Director, an exit conference shall be held with the auditee. The Audit Director and/or Audit Manager shall attend the exit conference with the audit team. The purpose of the exit conference is to correct any errors or clarify the report prior to issuance of the draft report, when a written response is requested.

The auditors shall include a Quality Assurance Checklist in the working papers. (See Form 1) This checklist requires signatures by the lead auditor, Audit Manager, and Audit Director. This checklist must be completed and signed prior to submitting audit reports to the Interagency Internal Audit Authority (IIAA). The signatures certify that the audit or attestation engagement was conducted in accordance with the July 2007 revision to GAGAS and the Internal Audit Division's Audit Manual and that the proposed draft and final reports are accurate.

The auditors shall also complete Section C, Audit Completion, of the Standard Audit Program (See Form 8) and ensure that all steps in the Standard Audit Program have been completed. The Audit Manager shall sign off on the Standard Audit Program after ensuring the completion of all steps.

Standards and procedures for preparing audit reports are provided in Chapters IIIG and IIIH.

➤ **Safeguarding and Retaining Working Papers**

Every effort shall be taken to ensure that working papers are protected from loss, damage, or theft. Working papers, reports, laptop computers, and any sensitive information should be placed in a locked file cabinet or desk drawer at the end of each day. In addition, audit staff should log-off their desktop computers when they plan to be away from the office for a length of time. When using laptops at an off-site location, auditors shall follow OPM #09-05, Controls over Use of Laptops, issued October 10, 2008.

When an audit is completed, auditors shall promptly place working papers in binders. Each working paper binder cover shall include the Title of the Audit, Project Number, Report Number, Date Issued, and binder number. Auditors shall ensure that the binders are complete and contain the discussion draft, draft, and final report, as well as the versions independently referenced and the independent referencer's notes. (See OPM#08-05, Quality Control Over Report Preparation, issued November 13, 2007). Completed binders shall be given to the Administrative Coordinator for filing in locked cabinets. Confidential reports shall be sealed, labeled, and filed in locked cabinets.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIF	SUBJECT: AUDIT FIELDWORK POLICIES AND PROCEDURES	INDEX: 7 OF 7
			DATE: 7/09

Working papers shall not be released outside the Internal Audit Division until the audit is completed, the report is issued, and the report is made public when posted on the Internal Audit Division's website. Requests for working papers on completed assignments shall be handled in accordance with Chapter IVA, Public Access to Records. Record retention is discussed in Chapter IVB, Record Retention.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III G	SUBJECT: AUDIT REPORTING STANDARDS	INDEX: 1 OF 3
			DATE: 7/09

Audit Reporting Standards: Auditors must follow GAGAS Reporting Standards for the specific type of audit being performed. (Financial Audits GAS 5.01-5.44; Attestation Engagements GAS 6.30-6.56; and Performance Audits GAS 8.01-8.43)

As stated in Chapter IIA, “Reports on audits and attestation engagements issued by the Internal Audit Division shall include either an unmodified or modified GAGAS compliance statement in accordance with GAS 1.12 (a) and (b). When auditors do not comply with any applicable GAGAS requirement, auditors shall comply with GAS 1.13.” When reporting on financial audits or attestation engagements, auditors may also cite AICPA Standards in addition to citing compliance with GAGAS.

Since the Internal Audit Division primarily issues reports on performance audits, specific reporting standards for Financial Audits and Attestation Engagements are not restated in this chapter. However, auditors shall review the Quality Assurance Checklist (See Form1) and use it as a guide to ensure that all Reporting Standards and internal policies and procedures related to reporting are followed. This checklist must be completed and signed prior to submitting final audit reports to the Interagency Internal Audit Authority (IIAA) for approval.

The key requirements contained in the GAGAS Reporting Standards related specifically to Performance Audits are summarized as follows:

Performance Audits (GAS 8.01-8.43)

- Auditors must issue audit reports communicating the results of each completed performance audit. Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. (GAS 8.03-8.04)
- The purposes of audit reports are (1) to communicate the results of audits to the appropriate officials; (2) make results less susceptible to misunderstanding; (3) make results available to the public, except when certain information may be classified or otherwise prohibited from general disclosure (GAS 8.39); and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. (GAS 8.05) If an audit is terminated before it is completed and no audit report is issued, auditors should document results of their work to date and why it was terminated. (GAS 7.49, 8.06)
- If after the report is issued, auditors discover that they did not have sufficient, appropriate evidence, they should communicate this information to appropriate officials, remove the report from any publicly accessible website, and determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions. (GAS 8.07).

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III G	SUBJECT: AUDIT REPORTING STANDARDS	INDEX: 2 OF 3
			DATE: 7/09

- Auditors should prepare audit reports that clearly describe in an unbiased manner (1) the objectives, scope (including limitations and constraints), and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. (GAS 8.08-8.13)
- In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Auditors should (1) describe in their report limitations or uncertainties with the reliability or validity of evidence, (2) place their findings in perspective, (3) disclose significant facts relevant to the objectives of their work, and (4) report deficiencies in internal control that are significant within the context of the objectives of the audit. (GAS 8.08, 8.14-8.18)
- Auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. Auditors should document and refer to any written communication regarding internal control deficiencies in the audit report if such communication is separate from the audit report. (GAS 8.19 - 8.20)
- When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding. (GAS 8.21-8.23)
- Auditors should report known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse directly to parties outside the audited entity when, (1) the entity fails to satisfy legal or regulatory requirements to report such information to external parties, and/or (2) when entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse. (GAS 8.24-8.26)
- Auditors should report conclusions, as applicable, based on the audit objectives and the audit findings. Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. (GAS 8.27)
- Auditors should recommend actions to correct problems identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III G	SUBJECT: AUDIT REPORTING STANDARDS	INDEX: 3 OF 3
			DATE: 7/09

resolving the cause of identified problems, and clearly state the actions recommended. (GAS 8.28 – 8.29)

- When auditors comply with all applicable GAGAS requirements, they should use the following language, which represents an unmodified GAGAS compliance statement. (GAS 8.30. 1.12a)

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

- Auditors shall provide a draft report with findings for review and comment by responsible officials of the audited entity and others to help the auditors develop a report that is fair, complete, and objective. Auditors shall include the views of responsible officials so that the report presents not only the auditors' findings, conclusions, and recommendations, but also the perspectives of the responsible officials of the audited entity and the corrective actions they plan to take. Obtaining the comments in writing is preferred, but oral comments are acceptable. Auditors should include in their report a copy of any written comments from responsible officials or a summary of the written or oral comments. Where appropriate, auditors should include an evaluation of the comments, and if auditors disagree with the comments, they should explain their reasons. Conversely, auditors should modify their report if they find the comments valid and supported with sufficient, appropriate evidence. (GAS 8.08, 8.32-8.37)
- If certain pertinent information is prohibited from public disclosure or is excluded from a report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary. When certain information may be classified or otherwise prohibited from general disclosure by federal, state, or local laws or regulations, auditors may issue a separate, classified or limited use report to only authorized persons. Auditors should evaluate whether excluding certain information is appropriate considering the broad public interest in the program or activity under review. When audit organizations are subject to public records laws, auditors should determine whether those laws could impact the availability of classified or limited use reports and whether other means of communicating with management and other officials would be more appropriate. (GAS 8.38-8.42)
- Auditors should document any limitation on report distribution. (GAS 8.43) (See Chapter III I, Report Distribution)

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 1 OF 7
			DATE: 7/09

Audit Reporting Policies and Procedures: A written audit report shall be prepared at the completion of each audit or attestation engagement, unless our audit work is performed solely in support of the external auditors and they write the report. In addition to complying with GAGAS reporting standards (See Chapter IIII), auditors shall comply with the Internal Audit Division's policies and procedures when preparing audit reports.

The policies and procedures relate to:

- Characteristics of a Well Written Report
- Stages of the Report Writing Process
- Report Formats
- Review and Approval

➤ Characteristics of a Well Written Report

GAS A8.02 states that report should be timely, complete, accurate, objective, convincing, clear, and concise.

Reports should be issued as promptly as possible to make them available to Frederick County, Frederick Community College, and Frederick County Public Schools management and their respective Boards, and other interested parties. As stated in Chapter IIII, Audit Fieldwork Policies and Procedures, interim reporting may be necessary if findings require immediate attention.

Reports shall be complete. Reports shall state the announced, or revised, audit objectives and contain sufficient, appropriate evidence to answer them. Reports shall not omit significant relevant information related to the audit objectives. Auditors shall clearly state what work was done and explain what work was not done and why. Findings included in audit reports should be significant enough to justify reporting them and be put in perspective as to the extent of deficiencies found. Isolated deficiencies, rather than systemic deficiencies, should not be included in the written report unless there is a significant actual or potential adverse affect or the deficiencies involve fraud, waste, or abuse. Auditors may verbally mention a matter at the exit conference that was not significant enough to include in the report.

Reports issued by the Interagency Internal Audit Authority (IIAA) must be accurate. Supervisory review, exit conferences with the auditee, and cross-indexing/independent referencing (See OPM#08-05, Quality Control Over Report Preparation, issued November 13, 2007) help ensure that reports are accurate before issuance. Independent referencing is a process where an auditor, who did not work on audit, traces facts, figures, statements, and conclusions in the cross-indexed

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 2 OF 7
			DATE: 7/09

report to the working papers. This process ensures that the report is “supported by sufficient, appropriate evidence” as required by GASA8.02a.

Reports shall be presented in a fair and objective manner. Reports should cite positive accomplishments, as well as the need for improvement. Reports should include management’s views of the findings and recognize actions taken as a result of the audit to correct conditions found. The tone of the report should be constructive and inflammatory words should not be used.

Reports should be written in a clear, convincing manner, and conclusions and recommendations should follow logically from the facts. Language used should be clear and simple and technical terms, abbreviations, and acronyms shall be defined. As stated in Chapter IIIF, Audit Fieldwork Policies and Procedures, the best approach for developing and presenting audit findings is to identify the condition, criteria, cause, effect, and recommendation.

Reports should be as concise as possible and include charts and graphs, when appropriate, to help facilitate the reader’s understanding of the finding(s). Information presented should be sufficient to persuade the reader of the significance of the findings, the reasonableness of the conclusions, and the importance of taking action to correct the identified deficiencies. Management improvements and cost savings should be clearly identified.

➤ **Stages of the Report Writing Process**

Internal Draft: Reports are considered Internal Drafts until the report is issued to the auditee’s management as a Discussion Draft.

Discussion Draft: This report is submitted to the auditee’s management several days prior to the exit conference. The purpose of the Discussion Draft is to obtain the auditee’s informal comments at the exit conference on the findings and recommendations, especially whether they agree with the facts as stated.

Draft Report: The Discussion Draft may be revised after the exit conference. This report is then issued to the auditee requesting a written response to any audit findings and recommendations. The auditee is usually given 3 weeks to respond, although the auditee may agree to less time if the 3 weeks is not needed.

Final Report: The Final Report includes the auditee’s written response to the Draft Report, a brief summary of the response, and auditor comments, if needed.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 3 OF 7
			DATE: 7/09

Management Letters: GAS 5.09 states that, for financial audits, if auditors issue or intend to issue a management letter on internal control over financial reporting and compliance with laws and regulations and provisions of contracts or grant agreements, they should state in the financial statement audit report that they are issuing additional reports. GAS 8.19 states that, for performance audits, auditors may include deficiencies in internal control that are not significant to the objective s of the audit in the audit report or communicate it to management in writing separately. If it is communicated separately, it should be referred to in the audit report. Proposed management letters shall be submitted to the IIAA for approval in the same manner as proposed final reports.

Management Letters may also be used for non-audit services, such as investigations, follow-up reviews, or when providing technical advice. Quality Control procedures used for proposed final reports, such as supervisory review, cross-indexing and independent referencing, shall also be followed for Management Letters.

All reports are confidential until issued in Final and shall have the “Confidential” watermark.¹

➤ Report Formats

The Internal Audit Division does not issue many financial audit reports. When preparing financial reports, auditors shall follow GAGAS reporting standards contained in GAS 5.01-5.44. An example of a Financial Statement Report is shown in Appendix B. There is no specific format for Management Letters, and the format shall be left to the discretion of the Audit Director.

Audit reports on performance audits or attestation engagements prepared by the Internal Audit Division generally adhere to the following format. An example of a Performance Audit Report is shown in Appendix E.

-Cover: Report covers shall include the Frederick County logo, Frederick County Interagency Internal Audit Authority, the title of the report, report number, and the date issued. The report number is provided by the Administrative Coordinator. The date issued is the date the IIAA approves the report for issuance.

¹ Final Reports shall be marked “Confidential” if the report contains pertinent information that is prohibited from public disclosure in accordance with Maryland’s Public Information Act. (See Chapter IIC, Confidentiality; Chapter III I, Report Distribution)

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 4 OF 7
			DATE: 7/09

-Table of Contents

Executive Summary

- I. Introduction
- II. Background
- III. Objectives, Scope, and Methodology
- IV. Audit Results
- V. Summary of Response(s)
- VI. Auditor Comments (if needed)

Appendix

Attachments

As auditors are given flexibility in the format of each report, the Table of Contents may vary. However, the Table of Contents, including finding captions under Audit Results, should serve as a roadmap for the report.

-Executive Summary: The Executive Summary, if needed, is usually no more than two pages. The Executive Summary (1) answers the announced, or revised, audit objectives, (2) summarizes what the auditors found that worked well, (3) summarizes findings and recommendations, and (4) states whether the auditee agreed or disagreed with the recommendations. Like the body of the report, the Executive Summary shall be written in a constructive tone, with a clear description of the findings and why improvements are needed. Extraneous detail should not be included in the Executive Summary. Instead, the Executive Summary should refer to the body of the report for more details.

-Introduction: This section states that the audit was conducted in accordance with generally accepted government auditing standards and briefly explains the standards¹. It states that.

Internal Audit (IA) conducted this (performance audit or attestation engagement) in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (See Chapter IIIH, Audit Reporting Standards)

This section also describes management's responsibility for implementing the recommendations or assuming the risk if they do not. It also states that the report is intended to provide information to

¹ If any standards were not followed, a modified compliance statement shall be used in accordance with GAS 1.12b.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 5 OF 7
			DATE: 7/09

management; however, it is a matter of public record and with the exception of any applicable disclosure exemptions, distribution shall not be limited.

-Background: This section provides a brief summary of the program, activity, or function being audited. It usually includes information such as the organization responsible, staffing and basic responsibilities, criteria, the number and dollar amount of transactions during the audit period, and any information deemed necessary to facilitate the understanding of the audited program, activity, or function.

-Objectives, Scope, and Methodology: This section includes the announced, or revised, audit objectives. It also describes the scope of the work performed such as the time period included in testing, the specific program or aspect of a program being reviewed, internal controls evaluated, and locations audited. This section should also identify any scope limitations, constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to records to certain records or individuals. In reporting audit methodology, auditors shall describe the work performed to address the audit objectives. When auditors use extensive or multiple sources of information, auditors should describe how they assessed the sufficiency and appropriateness of information used as audit evidence. When statistical sampling is conducted that significantly supports the auditors' findings, a description of the sample design and why the design was chosen, should be stated, including whether the results of sampling can be projected to the entire population.

-Audit Results: This section discusses the detailed audit results including the auditor's findings, conclusions and recommendations related to the announced, or revised, audit objectives. Audit results should contain sufficient, appropriate evidence to support the findings and conclusions and assist management or oversight officials of the audited entity in understanding the need to take corrective action. This section includes recommendations to correct problems identified during the audit and should identify expected benefits to management, such as improved management, and quantifiable cost savings.

Findings usually include a discussion of condition, criteria, cause, effect and recommendation. The inclusion of or emphasis placed on each finding element and the order in which they are presented will vary depending on the audit objectives and the nature and significance of the issue reported.

The audit results section should report:

- Any deficiencies in internal control that are significant to the audit objectives;
- Instances of fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse which has either occurred or is likely to have occurred;

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 6 OF 7
			DATE: 7/09

- An explanation of limitations or uncertainties with the reliability or validity of evidence if the evidence is significant to the findings and conclusions;
- The status of un-corrected findings from prior audits that are related to the audit objectives; and
- Pertinent, noteworthy accomplishments of the auditee.

-Summary of Response(s): This section summarizes the auditee's response(s) and indicates whether the auditee concurred with the recommendations or proposed alternative actions. Auditors are encouraged to accept alternative actions that meet the intent of the recommendations.

-Auditor Comments: This section is needed if the auditors disagree with the auditee's comments or actions, or want to add their own comments to respond to the auditee's comments. If the auditee's response includes comments that the auditor's facts are incorrect, the auditors shall determine whether the auditee's position is valid and supported with sufficient, appropriate evidence. If the auditors determine that there is in fact an error in the draft report, the auditors shall modify the final report accordingly and mention in the final report that changes were made.

-Appendices - Useful or important information that is too detailed to include in the body of the report may be attached as appendices. Appendices are assigned letters (A, B, C, etc.) and are always referenced in the body of the report.

-Attachments-The auditee's response(s) are attached in their entirety.

➤ Review and Approval

All reports are submitted to the Audit Manager and Audit Director for review and approval. In addition, the Administrative Coordinator reviews the draft and final reports for grammar, tone, and format. The Audit Director is authorized to issue Discussion Drafts and Draft Reports without IIAA approval.

Once the Audit Director approves the proposed final report, which incorporates the auditee's written

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIH	SUBJECT: AUDIT REPORTING POLICIES AND PROCEDURES	INDEX: 7 OF 7
			DATE: 7/09

response(s), it is submitted to the IIAA for approval¹ in advance of the next IIAA Meeting. The auditee's management is invited to the meeting when the proposed report is discussed. The report becomes final after the IIAA approves it.

After the report is approved, the Report Number and Date are added to the Report Cover. The report is dated the day the IIAA approves the final report. The Administrative Coordinator places the date of the report and the IIAA signature at the end of the Response Section, or after Auditor Comments, if included. The Administrative Coordinator shall obtain approval of the Audit Director prior to distribution of the report.

Report distribution procedures are contained in Chapter III I, Report Distribution.

¹ The Division Director is authorized to issue financial statement reports provided to the County and issued to a State agency, without prior approval of the IIAA, to meet mandated report deadlines. However, the IIAA shall be provided a copy of the report at the next IIAA meeting.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III I	SUBJECT: REPORT DISTRIBUTION	INDEX: 1 OF 2
			DATE: 7/09

Report Distribution: The Internal Audit Division shall follow GAGAS Reporting Standards related to Report Issuance and Distribution. (GAS 5.44, 6.56, 8.43) To ensure compliance with these standards, auditors shall complete the Quality Assurance Checklist. (See Form 1)

➤ Distribution

Once approved by the IIAA (or Audit Director, if authorized), the report becomes public information, unless the audit involves material that is classified for security purposes or contains confidential or sensitive information, which limits report distribution. If certain pertinent information is prohibited from public disclosure in accordance with Maryland’s Public Information Act¹, or is excluded from a report due to the confidential or sensitive nature of the information, auditors shall disclose in the report that certain information has been omitted and state the reasons why. Consideration shall be given to issuing a separate, classified, or limited use report to only authorized persons. (See Chapter IIIG, Audit Reporting Standards)

It is our policy to distribute audit reports to the appropriate officials of the audited entity who can ensure that the results are given due consideration and to the appropriate officials of the organizations requiring or arranging for the engagement. In addition, we also send copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on the findings and recommendations and to others authorized to receive such reports. Auditors should document any limitation on report distribution in the working papers.

Upon approval of the Audit Director, the Administrative Coordinator shall promptly distribute reports as follows, unless there are restrictions that limit report distribution as stated above. This distribution list may be expanded as necessary for a specific report.

County Reports

To: Board of County Commissioners (BoCC), County Manager, Assistant County Manager, Division Director, and Department Head

Copies: IIAA, Internal Audit Division staff, Board of Education (BOE), Frederick Community College (FCC) Board of Trustees, and the County’s external auditors

¹Maryland’s Public Information Act (“PIA”) gives the public the right to access government records without unnecessary cost and delay. <http://www.oag.state.md.us/Opengov/pia.htm>

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER III I	SUBJECT: REPORT DISTRIBUTION	INDEX: 2 OF 2

Frederick County Public School System (FCPS) Reports

To: Superintendent, BOE, Division Director, and Department Head

Copies: Executive Director, Fiscal Services Division; Assistant Director, Fiscal Services Division; IIAA, Internal Audit Division staff, BoCC, County Manager, Assistant County Manager, FCC Board of Trustees, and FCPS' external auditors

FCC Reports

To: President of FCC; FCC Board of Trustees; Vice President for Administration, FCC; Division Director, and Department Head

Copies: IIAA, Internal Audit Division staff, BoCC, County Manager, Assistant County Manager, BOE, and FCC's external auditors

Website

Unless the report is restricted by law or regulation, or contains privileged or confidential information, audit reports are public information and, therefore, are made available to the public. Promptly after report issuance, the Administrative Coordinator shall add the report to the Internal Audit Division's website at <http://www.co.frederick.md.us/index.asp?nid=1191>, upon approval of the Audit Director or Audit Manager, to make the reports available to the public.

Note: The Internal Audit Division shall coordinate Maryland Public Information Act (MPIA) media requests with the County's Public Information Officer, in accordance with Public Information Officer Communication Policy and Procedures, No. 08-04 dated March 11, 2008.

➤ Recording of Report Distribution

Auditors shall include a copy of e-mails distributing discussion draft, draft reports, and final reports in the working papers to document the report distribution. In addition, the Administrative Coordinator shall enter the report in the Master Log by Report Number, as required by OMP#08-04 issued November 13, 2007.

	INTERAGENCY INTERNAL AUDIT AUTHORITY	AUDIT MANUAL	
	CHAPTER IIIJ	SUBJECT: FOLLOW-UP	INDEX: 1 OF 1
			DATE: 7/09

Follow-up: Appendix I, A1.08 (f) of the July 2007 Revision to the *Government Auditing Standards* states that Government managers are responsible for addressing the findings and recommendations of auditors and for establishing and maintaining a process to track the status of such findings and recommendations.

To ensure that our findings and recommendations are satisfactorily addressed, the Internal Audit Division conducts a follow-up review approximately 6 months after report issuance and tracks each recommendation until implementation. Auditors shall comply with the process described in OPM#08-12, Audit Follow-up, issued March 6, 2008.

As stated in OPM#08-12, “it is not necessary to conduct a full follow-up review on every audit, especially if there is sufficient evidence that the recommendations were implemented and controls are in place to prevent the prior conditions from recurring. However, if significant risks remain in the program or activity being audited, a follow-up review should be included in our Annual Audit Plan. This determination shall be made by the Audit Manager and Audit Director, based on input from the lead auditor.”

Follow-up reports or memorandums are issued to the responsible managers and other appropriate officials. Recommendations not implemented within one-year of report issuance will be brought to the attention of the Interagency Internal Audit Authority (IIAA) for advice on further action that should be taken, such as informing top-level management that issues found in the audit have not been adequately addressed.

Appendix I, A3.03k (3) of the July 2007 Revision to the *Government Auditing Standards* considers periodic audit recommendation follow-up engagements and reports to be non-audit services.¹ GAS 1.33 states that GAGAS does not cover non-audit services. Accordingly, auditors shall not use the Quality Assurance Checklist (See Form 1), since GAGAS does not apply to such assignments. However, auditors shall maintain documentation of follow-up reviews in working papers and any report or memorandum resulting from the review shall be cross-indexed and independently referenced in accordance with OPM#08-05, Quality Control Over Report Preparation, issued November 13, 2007, prior to issuance.

¹ GAS A3.02 considers follow-up reviews to be non-audit services that do not impair auditor independence.