PREFACE

The Policies and Procedures Manual for the Office of Management and Compliance Audits was developed to provide audit staff information on the daily performance of their duties.

At the time of printing the information contained was current. Users of this document should be aware that district policies and procedures change frequently. Any concerns or questions should be addressed directly to the Chief Auditor.
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CHAPTER 1
INTRODUCTION
INTRODUCTION
This manual codifies the procedures that staff members in the Office of Management and Compliance Audits are required to follow in the daily performance of their duties for the Faraway County School District. The School Board Policy 1234 Office of Management and Compliance Audits states that, “The Chief Auditor and the Office of Management and Compliance Audits shall report to the School Board. To enhance the objectivity and effectiveness of the internal auditing activities, reports, audit findings and recommendations emanating from the office are submitted to the School Board, the Board’s Audit and Budget Advisory Committee and the Superintendent of Schools at the same time.”

Staff members in the Office of Management and Compliance Audits are required to follow various laws, policies and regulations, and professional standards, including, but not limited to the Administrative Code, the “Code of Ethics for Public Officers and Employees,” and School Board Policies, which are incorporated herein by reference. This manual should be viewed as additive to these laws, policies, and regulations. To the extent not in conflict with any laws, School Board Policies, or governmental regulations, this manual shall control with regard to procedures. In the event of any conflict, the law, regulation, or School Board Policy shall control.

INTERNAL AUDITING
The Institute of Internal Auditing defines Internal Auditing as follows:

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.

OUR MISSION
Given the aforementioned definition of internal auditing, the mission of the Office of Management and Compliance Audits is to provide an independent appraisal activity as a service to the School Board through the Audit and Budget Advisory Committee. Through the internal audit process, our office assists management in maintaining an internal control environment that is conducive to safeguarding and preserving the school system’s assets and resources, improving the general effectiveness of its operations, and assuring compliance with applicable laws, rules, and procedures.
OUR VISION
We strive to be among the best internal audit departments in the country, recognized by our customers and our peers for innovation, the integrity of our work, and the quality of our reports. We are committed to promoting teamwork in a diverse workforce, and encouraging the personal and professional growth of our staff.

OUR GUIDING PRINCIPLES
A commitment to quality governs our work. We define quality as work that is objective and unbiased, accurate, timely and meaningful, and presented in a way that is most useful to our customers.

Quality will pervade our work culture, which will be characterized by customer-focused continuous improvement in all that we do. We will strive to routinely meet or exceed customer expectations. To ensure success in achieving our vision, we will:

- Maintain an absolute, proactive, and long-term commitment to customer-focused continuous improvement
- Act as role models for the quality values we espouse

OUR GOALS
- To enhance the School District’s accountability by assessing the performance of programs and functions, and by effectively communicating the results of our work
- To improve the School District’s operations by recommending changes that increase the economy, efficiency, and effectiveness of supported programs and processes
- To work collaboratively with the Office of the Inspector General and School Police to search for and expose illegal, wasteful or abusive use of School District’s resources
- To help ensure that there is effective coordination and cooperation with outside independent financial and state auditors with a view towards facilitating their work and avoiding duplication
- To provide high quality professional services in carrying out our core responsibilities
- To provide a stimulating and rewarding place to work, and to encourage the continuing professional development of our staff

AUTHORITY
The basis for our authority to conduct audits and other types of engagements is contained in School Board Policy 1234, which states that the Office of Management and Compliance Audits shall:

- Have access to all records and areas within the school system
Introduction

Have direct communication and free access to the Superintendent of Schools, members of the Audit and Budget Advisory Committee, School Board members and school system officials to discuss audit findings

Be accountable as a whole to the School Board in order to ensure unrestricted audit coverage and appropriate action in response to audit findings

Be free of organizational pressures that limit its objectivity in selecting areas to be examined, or in evaluating these areas

Have adequate support from school system officials to perform its auditing activities

ACCESS TO RECORDS

During an audit, we require and are granted access to records, documents, files, and other School District information to effectively complete the audit. We have the authority to request reasonable assistance from appropriate personnel in acquiring requested records and documents; have inspection privileges to all assets owned, leased or borrowed by the District, and have entry privileges to all facilities used by the District.

While our authority to request and review records are far reaching, it is each auditor’s responsibility to use professional judgment and limit demands on District staff, requesting only those records that are salient to the scope of the assignment. In addition, auditors are expected to maintain the confidentiality of any records that are confidential and may be subject to disciplinary action for violating confidentiality.

An audit report and related work papers become public record when the audit becomes final. An audit becomes final when it is presented to the School Board. In order to protect draft information from premature public inspection, requests for information from either: School Board members (and/or their staff), Audit and Budget Advisory Committee Members or members of the public must be referred to the Chief Auditor or his designee.

AUDIT AND ACCOUNTING STANDARDS

The conduct and performance of our professional services are guided by professional auditing standards issued by the following standard setting bodies:

- U.S. General Accountability Office (Generally Accepted Government Auditing Standards – (GAGAS)
- Institute of Internal Auditors (International Standards for the Professional Practice of Internal Auditing – The Professional Practice Framework (PPF)
- American Institute of Certified Public Accountants’ (AICPA)
generally accepted auditing standards for fieldwork and reporting, as well as the related AICPA Statements on Auditing Standards (SAS)

- Information Systems Audit and Control Association’s (ISACA) Information System Standards, Guidelines and Procedures for Auditing and Control Professionals

The auditing standards that need to be applied depend upon the nature of the professional services performed.

Auditors should also familiarize themselves with and apply the accounting principles and financial reporting standards promulgated by the three authoritative bodies:

- Federal Accounting Standards Advisory Board (for federal government)
- Governmental Accounting Standards Board (for state and local governments)
- Financial Accounting Standards Board (for non-governmental entities)

**TYPES OF AUDITS**

The U.S. General Accountability Office has issued auditing standards for two basic types of governmental audits and three types of attestation engagements:

**PERFORMANCE AUDITS** entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria. These assessments provide a prospective focus and produce information on best practices or crosscutting issues. Performance audits provide information to improve program operations, facilitate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to:

- Assessing program effectiveness and results
- Assessing economy and efficiency
- Assessing internal control
- Assessing compliance with legal or other requirements
- Providing prospective analyses, guidance, or summary information

Performance audits may entail a broad or narrow scope of work and apply a variety of methodologies. They involve various levels of analysis, research, or evaluation; generally provide findings, conclusions, and recommendations; and result in the
issuance of a report.

Prior to performing this type of work, a written engagement letter should be prepared setting forth the understanding of the scope of work.

**FINANCIAL AUDITS** are primarily concerned with providing reasonable assurance about whether financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP), or with a comprehensive basis of accounting other than GAAP. Other objectives of financial audits may include:

- Providing special reports for specified elements, accounts or items of a financial statement
- Auditing interim financial information
- Auditing compliance with regulations relating to grant award expenditures and other governmental financial assistance in conjunction with, or as a by-product of, a financial statement audit

Auditing contractors’ records for compliance with contract terms and conditions **ATTESTATION ENGAGEMENTS** may cover a broad range of financial or non-financial objectives about the subject matter or assertion depending on the user’s need. Depending on the type of engagement, an attestation engagement should result in the issuance of a report, which either provides assurance or limited-assurance on whether the subject matter of the engagement conforms, in all material respects, to the established criteria; or presents the findings, based on agreed-upon procedures performed.

The objectives of attestation engagements may include:

- Reporting on the processing of transactions by service organizations
- Assessing investment performance
- Reviewing the processes for implementing new computer application systems

Prior to performing this type of work, a written engagement letter should be prepared setting forth the understanding of the scope of work.
Introduction

Non-Audit Services

The Office of Management and Compliance Audits may be requested to perform special projects that do not represent audits covered under generally accepted Government Auditing Standards. For example, the office may be requested to perform a survey or study. These services may or may not result in the issuance of a report.

Prior to accepting such projects, a determination needs to be made that providing such services will in no way impair the audit department's ability to provide future assurance services in an independent and objective manner. In addition, the resources committed to such projects, in aggregate, should not diminish the department's capacity to provide minimal internal audit coverage of the School District.

When providing information, conclusions, recommendations or opinions, the limited degree of audit verification should be disclosed. A statement should be included in any formally issued report that the non-audit services were not conducted in accordance with GAGAS.

Regardless of the nature of the assignment, the quality of the work product should in all cases follow the high professional standards of the office.

Prior to performing this type of work, a written engagement letter should be prepared setting forth the understanding of the scope of work.

Responsibilities of the School District's Management & Staff

The Office of Management and Compliance Audits operates on the basic premises that the District's management and staff:

- Have a responsibility to apply resources efficiently, effectively, and economically so that taxpayers receive value for their money
- Are accountable to the public and to other levels and branches of government
- Are responsible for establishing and maintaining effective internal control systems to ensure:
  - Goals and objectives are met
  - District assets and resources are safeguarded
  - Laws and regulations are followed
  - Reliable data are obtained, maintained, and accurately reported
CHAPTER 2
PROFESSIONAL CONDUCT
This section concerning professional conduct establishes the guidelines for the staff of the Office of Management and Compliance Audits. Taken as a whole, this section calls attention to the fact that the audit staff is held to high standards of trust, independence, objectivity, confidentiality and competence. The staff must be committed to the avoidance of conflicting interests and to the full disclosure of actual or potential impairments.

Staff shall review and comply with requirements in the policies promulgated by the School Board, the Administrative Procedures Manual Employee Handbook and the Administrative Policy Handbook.

INDEPENDENCE – Most of the Office of Management and Compliance Audits’ products recommend improvements to existing policies, practices and operational aspects of the School District. It is, therefore, essential that the audit staff be independent and be perceived as such. The independent attitude should indicate to all that the work efforts of the office are unbiased and impartial with respect to the presentation of any finding or recommendation. The opinions and conclusions the staff derives from audits, reviews and investigations must be based on facts, evidence and analyses irrespective of the influence of School District managers and staff.

Each staff member shall complete a Statement of Independence at the time of assignment to an audit, review or investigation. Upon supervisory review, the signed statement will be included in the audit working papers.

CONFLICT OF INTEREST – Staff members should be neither advocates nor adversaries of any special interest party. At no time should they allow their views or personal situations to impair their judgment and depth of reporting. Any official, professional, personal or financial relationships that might affect the staff member’s objectivity or limit the extent of analysis or disclosure of findings should be disclosed to the issue area director prior to beginning an assignment.

INTEGRITY AND OBJECTIVITY – No member of the staff shall knowingly misrepresent the facts in the presentation of findings developed during an audit, review or investigation. To ensure staff integrity, it is expected that work assignments will have been adequately planned and relevant data will have been sufficiently analyzed on which reasonable conclusions and/or recommendations can be made.
CONFIDENTIALITY – Records shall not be removed from the auditee’s premises without permission. Staff members shall not discuss the status of ongoing internal audits or investigations with persons that are not a necessary part of the project. Inquiries from the media and public should be referred directly to the Chief Auditor. No confidential information obtained in the conduct of work assignments that is not available to the general public shall be disclosed to others. This statement does not relieve employees from their obligations under the laws of the state governing public documents, nor does it restrict the exchange of information with any duly constituted legislative, investigative or disciplinary body.

Demeanor – It is expected that at all times during the course of business, staff will present themselves in a professionally acceptable fashion. The demeanor of staff while on duty must reflect positively on the image of the Office and the School District.

CODES OF ETHICS – Employees of the Office of Management and Compliance Audits have an obligation to follow the Code of Ethics for Public Officers and Employees, found in state statutes. They are also committed to following the Code of Ethics for district employees as promulgated in School Board Policy 1111, the applicable Ethics Standards promulgated by the American Institute of Certified Public Accountants, the Ethical Principles described in the U.S. Government Accountability Office Government Auditing Standards and the Code of Ethics for internal auditors promulgated by the Institute of Internal Auditors. (See below)

Combined Code of Ethics and Ethical Principles

Introduction

The purpose of Codes of Ethics and Ethical Principles promulgated by the abovementioned standard setting bodies is to promote an ethical culture in the profession of auditing, including internal auditing, where applicable.

*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 risk management, control, and governance. Fundamental to the IIA’s and AICPA’s Codes of Ethics are 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.

**Applicability and Enforcement**

The Codes of Ethics apply to both individuals and entities that provide auditing services, including internal auditing.

For professional auditors who are IIA or AICPA members and recipients of, or candidates for, professional certifications from these institutions, breaches of the respective Codes of Ethics will be evaluated and administered according to the Institutes’ Bylaws and Administrative Guidelines. 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.

**Principles**

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

**Integrity**

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

**Objectivity and Independence**

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 facts and circumstances and are not unduly influenced by their own interests or by others in forming judgments.
Confidentiality

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

Competency and Due Care

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

The Public Interest

Internal auditors respect the privileged position they have in contributing to the collective well-being of the community of people and entities they serve.

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 and Independence

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 of resources and their position, and in the 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 and Due Care**

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 auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing and Government Auditing Standards*.

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

5. **The Public Interest**

Internal auditors:

5.1 Shall act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.
CHAPTER 3
ANNUAL AUDIT PLAN
ANNUAL AUDIT PLAN

The School Board Policy 1234, Office of Management and Compliance Audits states that:

The Chief Auditor will submit to the Audit and Budget Advisory Committee, the Superintendent of Schools, and the School Board for review a comprehensive Audit Plan for a year. This plan should identify the overall audit scope of scheduled examinations in both financial and non-financial areas. Audits and reviews, as requested by the Superintendent of Schools, the School Board, the Audit and Budget Advisory Committee, and members of the administration, will be included to the degree feasible in the Audit Plan.

Accordingly, the Chief Auditor is responsible for developing and implementing the Annual Audit Plan. The Annual Audit Plan should be developed in cooperation with senior management and in consultation with individual Audit and Budget Advisory Committee members. The Chief Auditor may use his/her professional judgment to initiate and conduct any other audit or review he/she deems necessary to undertake and should consult with the Audit and Budget Advisory Committee and the School Board on proposed material changes to the Annual Audit Plan.

RISK BASED APPROACH

In developing the Annual Audit Plan, the Office of Management and Compliance Audits periodically performs a risk assessment. In this assessment, particular attention should be given to high-dollar expenditure areas, new program activities, topical items, and inherently sensitive areas.

HIGH DOLLAR EXPENDITURE AREAS:

A review of the School District’s annual budget will reveal the high-dollar programs.
NEW PROGRAM ACTIVITIES: New programs may be highly vulnerable to potential fraud, waste and abuse since experience has not been adequate to reveal weaknesses. For this reason, new programs must be considered high potential areas to which audit resources will be devoted. Comparison of legislative appropriations and organizational charts will reveal new programs, which should be scrutinized with care.

TOPICAL ITEMS: Topical items may be analyzed during the initial assessment; however, various areas and programs will become subject to topical interest during the School Board’s policy development process. Heightened news media coverage, public interest, group attention, and/or external investigations may also reveal worthwhile audit topics.

INHERENTLY SENSITIVE AREAS: Areas with enforcement of specifications or regulations are inherently prone to corrupt or fraudulent practices such as bribery and collusion.

To assist in assessing the risk associated with the District’s various programs, to the extent practicable, interviews should be conducted with the Superintendent, Deputies, Department and Division Directors, Communications, Legislative Liaisons, and Finance and Accounting staff.

The audit reports issued by the Auditor General should be reviewed to identify problem areas requiring continued attention. The reports will also identify areas, which received favorable reviews and may be given low priority for internal audits. Similarly, the Management Letter issued by the School District’s independent certified public accounting firm should be reviewed for reported control weaknesses.

Risk is significantly different from a program performance audit perspective than it is from a financial audit perspective. Performance audits, unlike financial audits, cannot be conducted on a regular audit cycle. The audit universe is too large, the auditable elements too diverse and the cost of the audits too high. Also, program risk is difficult to assess. The School District has a programmatic budget, and a limited performance measurement system that ties inputs to outputs and outcomes. Therefore, some aspects of the risk attributes are not necessarily quantifiable or may only be measured in a general range, without great precision. Traditional risk assessment, as used in internal auditing, is a good place to start. However, it is not an adequate tool for maximizing audit impact and is not a substitute for good judgment, because it
does not consider opportunities to improve outcomes.

Our quantitative approach considers factors unique to the District against which a number is assigned based on the likelihood of occurrence and impact on the District. The cumulative value is then ranked to determine whether audit work should be considered in a particular area. The five factors we consider are listed in the following table:

<table>
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<th>Materiality</th>
<th>This risk factor measures the relative size of the program over a multi-year period.</th>
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<td>Audit Coverage</td>
<td>This risk factor considers the extent of past audit coverage, regardless of provider, i.e., internal or external.</td>
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<td>Internal Risk</td>
<td>This measures operational risk; i.e., internal reasons (processes and controls) that School District activities may be ineffective or inefficient or expose the School Board to unacceptable loss or failure.</td>
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<tr>
<td>Environmental Risk</td>
<td>This risk factor measures external forces that could significantly effect the School District’s operations. They include intergovernmental, public confidence and catastrophic recovery risks.</td>
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<tr>
<td>Information Risk</td>
<td>Reliance on incomplete or inaccurate data may cause inappropriate financial and operational decisions. These include processing, integrity, availability, relevance and budgetary risks.</td>
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This risk-oriented approach to audit planning provides the School Board with the opportunity to optimize its audit assurance function(s), given the available resources. The Annual Audit Plan reflects a consideration of risk and its relationship to the mission and objectives of the District. The proposed Annual Audit Plan is presented to the School Board's Audit and Budget Advisory Committee at its first meeting of each fiscal year. Approved copies of audit plans are kept on file in the Office of Management and Compliance Audits.
AUDIT PLANNING  All individual audits in the Office of Management and Compliance Audits must be adequately planned. Planning for each assignment should be documented in the working papers. A written audit plan should be prepared for each audit. This should include a memorandum or other appropriate document outlining the key decisions made about the audit objectives, scope and methodology, a consideration of fraud risks, and the auditor’s basis for the decisions. This can be accomplished by performing audit survey work at the initial stage of the audit and should also culminate in the preparation of a detailed audit program. Documentation of the planning process may also occur electronically.

In preparing a detailed audit program the auditor needs to consider:

- Data sources, data collection methods, analytical techniques, and data verification procedures appropriate for answering the audit objectives
- Sampling procedures that adequately address the objectives
- Time and cost involved
- Scope limitations.

The level of detail in the plan depends on the resources invested in the audit, the audit’s complexity, controversy or risk, and the team’s prior experience. Further guidance on planning is included in Chapter 4 – Performance Audits and Chapter 5 – School Audits.
CHAPTER 4
PERFORMANCE AUDITS
PERFORMANCE AUDITS

A significant amount of audit work performed in the Office of Management and Compliance Audits falls within the category of performance audits. A performance audit refers to a detailed assessment or evaluation of an organizational unit, program, activity, process or procedure. The particular emphasis of an audit will depend on the nature of the individual assignment.

Various terms are used for non-financial/compliance audits. Program audits, according to Government Auditing Standards, include:

- The extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved
- The effectiveness of organizations, programs, activities or functions
- Whether the entity has complied with laws and regulations applicable to the program

Operational audits are more concerned with the economy and efficiency of operations. Performance audits, according to Governmental Auditing Standards, include both program and economy and efficiency audits and is, therefore, selected as the term to describe this function in the Office of Management and Compliance Audits. In practice, the scope of a performance audit may be very narrow or very broad, depending on what is being audited.

Financial audits have rather clear-cut audit procedures. Performance audit procedures are less uniform. Nevertheless, there are certain steps that need to be taken in every case. While the approach of a performance audit may not be as uniform as for a financial audit, it can be as systematic, and it can be carefully planned and executed.

The organizational unit which is the subject of the audit is referred to in this manual as the auditee, the audited entity, or the auditee organization.

Generally, performance audits will be specified in the Annual Audit Plan. Occasionally, The Office of Management and Compliance Audits may be asked to perform an audit that is not in the Annual Audit Plan.

The Assistant Chief Auditor of each issue area is responsible for determining which staff (one or more) will be assigned to each project. Other District personnel or outside consultants will also be
Performance Audits

included, if necessary, for a particular project. Depending on the number of auditors assigned to a particular audit, a member of the OMCA staff will be designated as team leader.

Upon being assigned to undertake a performance audit, staff members will execute a Statement of Independence. After review and approval by their supervisor, the signed statement will be included in the working papers file.

AUDIT NOTIFICATION

At the earliest possible time, a supervisor should communicate with the management of the auditee by e-mail, telephone or in person. He/she will explain the assignment, set a tentative date and time for an entrance conference, and ensure that there are no impediments to the conduct of the audit. This initial contact should be followed immediately with a letter or memorandum, signed by the Chief Auditor, to the management of the auditee organization. The engagement letter/memorandum should contain the following information:

- Type of audit to be conducted
- Purpose of the audit
- Methods to be used (interviews, file reviews, etc.)
- Name(s) of audit staff involved
- Time of commencement and estimated duration
- Confirmation of the entrance conference
- Any other information deemed useful to the auditee in preparation for the audit

ENTRANCE CONFERENCE – An entrance conference should be held with the management and appropriate staff of the auditee. The decision on participation from the auditee rests with its management. Wherever possible, however, the widest possible participation from the audited units is encouraged.

A major objective of the conference is establishing a climate in which management and staff are aware of the audit process and are provided an opportunity for input. The following matters should be covered:

- Scope of audit including program areas being reviewed and period of time covered or specific areas management may want examined.
- Establishing appropriate communication channels including
  - Procedures for acquisition of initial documents, information, and reports from the auditee
  - Procedures for transmitting preliminary audit findings
- Any known improprieties that have occurred since the last audit.
- Standard reporting procedures for preliminary, draft and final reports, including the need for responses from management.
- Anticipated date to commence audit fieldwork.
- Arrangements for office space, equipment, etc.

The entrance conference should be documented in the working papers.

**SCOPE AND OBJECTIVES**

Perhaps the most important activity in the entire performance audit process is the formulation of the scope and objectives. This is included in broad terms in the assignment authorization.

**Scope** refers to the depth and coverage of an audit. The scope statement should include supportive information such as the period audited. The scope should be broad enough to enable the objectives to be achieved; yet narrow enough that audit efforts can be focused and accomplished within a reasonable time period. A well-formulated scope statement will also indicate the areas not to be covered in the audit to delineate the audit boundaries.

The stated **objectives** (or purpose) of an audit indicate what is to be accomplished in the audit. Objectives should be clearly articulated and used as a guide in the development of findings. Both the scope and objectives will be gradually formulated and refined over the course of the audit. The assigned auditor(s) will prepare the *tentative* scope and objectives. This should be done as soon as possible after the auditor(s) receive the assignment and are briefed on the audit organization’s management interests and concerns and other background information regarding the auditee. They will be included as part of the assignment authorization, and approved by the Chief Auditor or Assistant Chief Auditor. This will serve to ensure that there is a clear understanding of what the focus of the audit should be.

The *tentative* scope and objectives may be fairly general. After the preliminary survey phase of the audit, they should be refined and become part of the planning memorandum. The final scope and objectives will be stated in the first part of the report. The findings of the audit should be clearly related to the objectives.
GUIDELINES FOR WRITING AUDIT OBJECTIVES

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<th>Why develop audit objectives?</th>
<th>To define those questions that can be answered through the audit process.</th>
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<td>To clarify the purpose of the audit.</td>
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<td>To determine the type of audit to conduct and the audit standards to follow.</td>
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<td>To establish direction for detailed audit work.</td>
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<th>Audit subject.</th>
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<td>Performance aspect.</td>
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<td>Finding elements to develop.</td>
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<th>How do you phrase objectives?</th>
<th>As a question:</th>
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<td>“Is Procurement following the prescribed steps to monitor vendor performance?”</td>
</tr>
<tr>
<td></td>
<td>“Does Maintenance Contract Management submit detailed evaluation forms to document vendor performance?”</td>
</tr>
<tr>
<td>As a “to determine” statement:</td>
<td>“To determine whether Maintenance Contract Management is filing evaluation forms as required to document performance by its vendors.”</td>
</tr>
<tr>
<td>As a conditional statement:</td>
<td>“To determine whether Maintenance Contract Management is following the prescribed steps to monitor performance by its vendors; if not, determine the consequences, and if the consequences are significant, determine the cause of the problem, and what can be done about it.”</td>
</tr>
</tbody>
</table>
THE PLANNING MEMORANDUM

Proper planning is crucial to the successful execution of a performance audit. Often the planning phase may occupy a significant portion of the time required for an audit. Various terms are used to refer to different types of audit planning documents. The terms include audit plan, audit program, and planning memorandum. The term audit plan describes the annual plans for anticipated work by the Office of Management and Compliance Audits. The audit program refers to a detailed series of steps to be followed during an audit. In the context of performance audits, the term planning memorandum refers to a document displaying the overall planning information for a particular audit. Additionally, a Checklist for Performance Audits must be completed for each assignment.

Initially, the engagement letter serves to indicate the general direction that the auditor(s) believe the audit will take. The preparation of the planning memorandum should be commenced as soon as possible after the start of an audit and should be completed along with the Audit Program during the Survey phase of the project.

The planning memorandum for a performance audit may include the following:

- Scope and objectives
- Background information, including previous audits
- Staffing requirements for the audit
- Milestone completion dates
- Important contacts
- Requirements of laws, regulations, procedures and policies applicable to the audit
- Risk assessment

THE SURVEY PHASE

During the survey phase, often referred to as the planning phase, the auditor gathers adequate information in order to plan and program the audit and also to identify problem areas warranting additional audit work.

The focus of survey work and the time required will vary, depending on the audit. Time requirements will also be influenced by the audit staff’s prior knowledge of the areas being examined and by the size and complexity of the activities undertaken by the auditee organization.

According to Government Auditing Standards, auditors are responsible for determining which requirements of laws and regulations are to be considered in the audit. Auditors need to exercise professional judgment in identifying those laws and
regulations that might have a significant impact on the audit objectives. It is recommended that the auditors consult with appropriate auditee staff or with the Board Attorney’s Office to ensure that all applicable statutes and regulations have been identified.

Although survey work will differ, depending on the type of audit undertaken, the usual approach in conducting the survey phase is to make a broad appraisal of the auditee organization and how it operates. The next step is to narrow the survey scope by identifying areas, activities and programs which appear to warrant additional preliminary evaluation. Practical information for each area selected would then be obtained on:

- How the operations are actually carried out
- What management controls are in place
- How necessary the work steps are
- The process used to monitor results
- Whether or not the work satisfies legal requirements, achieves established goals and/or follows common practices
- Any existing known fraud or fraud risks

The following methods for obtaining survey information should be considered:

- Review of applicable laws, legislative history, regulations, procedures and policies
- Discussions with the organization’s officials and personnel directly involved in operations
- Interviews with people directly affected by a program and others knowledgeable about the organization and its activities
- Physical inspection and on-site observation
- Reviews of management’s reports
- Reviews of studies and previous audit reports
- Test transactions – tracing a very limited sample of specific work transactions from beginning to end
- Documenting procedures undertaken, such as flow charts and graphics

The kind of information to be obtained during the survey phase depends on the type, purpose and scope of the audit. In general, the information needed can be grouped as follows:

- General background information – working knowledge of programs, activities, operating methods, purposes, goals and objectives
Performance Audits

- Organization – staffing, duties, organizational charts
- Position descriptions, and functional diagrams
- Authority and responsibility
- Financing – although the performance audit is not likely to involve financial auditing, the auditor should make a judgment on the amount of financial information that will be useful to the audit, such as source and amount of funding, budget data, cost and location of assets, operational costs, program administration costs, etc.
- Goals and objectives established

The objectives of the survey phase are to make observations and decide what additional work or detailed reviews are to be done, and what work is not to be done, during the examination phase.

The result of the survey is a summary prepared to facilitate communication and to lay the groundwork for the detailed audit in the form of a detailed planning memo and audit program. The summary should include information developed during the survey phase. Audit staff should have a preliminary estimate of time and resources required to complete the assignment as well as a target date for completing the audit work and the reporting phase.

With survey results and summary in hand, the auditor is now in a position to finalize the audit program.

**REFERENCE MATERIALS USEFUL IN PREPARATION FOR PERFORMANCE AUDITS**

- Audit Reports
- Functional Organizational Charts
- Staffing Organizational Charts
- Position Descriptions
- State Statutes
- Current Legislation
- Administrative Rules (State Administrative Code)
- School Board Policies
- Employment Agreements
- Employee Grievances
- Employee Turnover Data
- Agency Plans
- Interagency Working Agreements
- Budget Information
- Agency Legislative Agenda
- Personnel List – Title, Telephone, e-mail address
- Program Evaluations, Evaluations Reports
- Operations Flowcharts
- Federal Grant Agreements
THE AUDIT PROGRAM

The audit program, as defined in this manual, is a detailed list of steps to be followed during the course of a performance audit. Parts of the audit program will remain constant from one audit to the next, while other parts will change. The audit program will normally be developed during the preliminary survey, after the planning memorandum. It will refer back to steps completed earlier, such as the engagement memo. One of the functions of the audit program is to provide a checklist of tasks that are required to be performed during the examination phase in all audits. This helps to ensure compliance with auditing standards.

Since performance audits may vary considerably in scope, the part of the audit program dealing with the examination phase will also vary. For this reason, the audit program should be prepared separately for each audit. The parts of the audit program that are constant may be kept on a generic template, with additional items added to make up the unique audit program for each performance audit.

For each separate step or task, the format for the audit program should include spaces for date of completion, auditor's initials, and working paper references. The Assistant Chief Auditor should approve the audit program as a whole. At the completion of the audit, the audit program will become part of the working papers and be appropriately cross-referenced.

Examples of recurring parts of the audit program include:

- Written assignments authorization approved
- Engagement memorandum sent
- Assignment or responsibilities received
- Certificates of independence signed
- Tentative scope and objectives defined and approved
- Planning memorandum prepared and approved
- Laws, regulations, procedures and policies reviewed
- Procedures manual reviewed
- Previous audit findings reviewed
- Information systems considerations
- Entrance conference completed
- Audit tracking sheet initiated (this will cover steps involving completion of the report)
- Working papers indexed, labeled, and cross-referenced
- Exit conference completed

Variable parts of the audit program can include:
The examination phase is also referred to as the on-site phase, audit fieldwork, implementing the audit, or the verification and analysis phase.

During the examination phase, the auditor will complete the steps necessary to attain the objectives spelled out in the planning memorandum and tentatively developed during the survey phase. The approach should adhere closely to the scope and purpose of the planning memorandum. It is this phase in which a determination is made as to whether a problem does in fact exist, whether or not it is significant, and what should be done about it. The focus of the examination phase is on detailed data collection, implementation of tests and measures, and analysis of the information obtained.

Areas of concern uncovered during the survey phase were derived mostly from secondary data, auditor familiarity with the operations of the audited entity, and from preliminary interviews. During the examination phase, these areas of concern are examined in depth, moving from possibility to reality, i.e., a reasonable person would conclude from the facts, the testing or the analysis that a specific problem does or does not exist.

There are so many examination phase situations that no single approach to in-depth probing can be uniformly applied. In all cases, however, the information collected and analyzed should be sufficient, competent, relevant and useful to provide a sound basis for findings and recommendations.

The activities and procedures employed during the examination phase should be selected in advance and expanded or altered as circumstances warrant. The process should be adequately supervised and approved by the Audit Director and/or Assistant Chief Auditor to ensure that audit objectives are being met. Among the activities and subjects selected and projected for the examination phase are the following:

- Persons to be interviewed
- Internal control to be assessed for adequacy and
effectiveness

- Documents, records, reports and files to be reviewed for accuracy, completeness and effectiveness of controls over them
- Laws, regulations, policies and management directives complied with
- Appropriateness of policies, procedures and practices determined
- Specific sampling techniques selected
- High-risk areas identified for probing
- Continuing alertness to indications of fraud, mismanagement and abuse
- Assets appropriately safeguarded
- Evidence to meet tests of sufficiency, relevance and competence gathered
- Organized assembling of working papers undertaken
- Comparisons and trends analyzed
- Types of surveys required
- Quality of performance assessed
- Program objectives and goals established and accomplished
- Operating standards established for meeting standards for economy and efficiency

In addition to the activity and judgments called for above, the auditor must consider the need for audit activity away from the audited entity's offices or establishment. Among those activities that may need consideration are:

- Field trips to consult with offices or recipients of grants administered by the auditee
- End-user surveys to elicit specific “customer” information about the receipt of services or other benefits mandated by statute or legislative history in the program being audited, including consideration of the fact that a considerable amount of time is usually required for surveys
- Contact with other agencies or other organizations that have developed data or procedures that may help to establish what would be considered adequate or substantial compliance in a particular case.
CHAPTER 5
FINANCIAL AUDITS
The majority of financial related audits involve component units of the School District, contractors, and subcontractors. However, financial related audits can include some internal items such as various financial systems, e.g. treasury, payroll, etc. Some of the financial related contractor audits might involve construction and consultant contracts.

Financial related audits may include audits of the following nature:

- Financial statements or segments of financial statements
- Financial information (e.g., statements of revenue and expenses, statements of cash receipts and disbursements, statement of fixed assets)
- Reports and schedules on financial matters such as expenditures for specific programs or services, budget requests, and variances between estimated and actual financial performance
- Contracts (e.g., contractor prequalification reviews, bid proposals/pre-award reviews, contract pricing, amounts billed/consultant overhead audits, amount due on termination claims, compliance with contract terms)
- Grants and financial reviews of intergovernmental agreements between the School District and other state and local Government entities for various services to be provided
- Internal control systems structure over accounting, financial reporting, and transaction processing
- Computer-based systems
- Financial systems (e.g., payroll systems)
- Fraud

Most financial statement audits will likely be outsourced to certified public accounting firms. However, to the extent the office performs financial type audits, fieldwork and reporting standards will comport with the U.S. Government Accountability Office Government Auditing Standards.
CHAPTER 6
ATTESTATION ENGAGEMENTS
ATTESTATION ENGAGEMENTS

From time to time, the Office of Management and Compliance Audits may be asked, by management, to perform an attestation engagement or may initiate such an engagement on its own. Attestation engagements can cover a broad range of financial or non-financial objectives about the subject matter or assertion depending on the user’s need. (Government Auditing Standards) An attestation engagement will involve providing one of three levels of services:

- Examination engagement
- Review engagement
- Agreed-upon procedures engagement

The level of assurance the Office of Management and Compliance Audits provides in an attestation engagement depends upon the type of engagement performed, in compliance with AICPA and GAGAS standards.

Attestation engagements may include either an examination, review or agreed-upon procedures of the following examples:

- Segment(s) of financial statements
- Findings of a report prepared by others
- Financial information (e.g., statements of revenue and expenses, statements of cash receipts and disbursements, statement of debt obligations; and statement of fixed assets)
- Reports and schedules on financial matters such as expenditures for specific programs or services, budget requests, and variances between estimated and actual financial performance
- Contracts (e.g., specific contract term(s), representations contained in a contract, and fee schedule)
- Single or multiple financial transactions
- Design of a computer system or process

REQUIRED CONSIDERATIONS

The auditor should use professional judgment in determining the classification and level of services to be provided. It is important to keep in mind that the subject matter or assertion upon which the auditor is reporting is the responsibility of another person. Therefore, when performing an attestation engagement, the auditor-in-charge, along with the Assistant Chief Auditor, should clearly communicate and document their understanding of the level of services to be performed with those responsible for the subject matter or assertion that
Attestation Engagements

will be the subject of the auditor’s work. This communication should be facilitated through either an engagement letter or memorandum of understanding, signed by the Chief Auditor and the person who is responsible for the subject matter or assertion. The signed document should be maintained in the engagement working paper file.

The work of the auditor must comport to other fieldwork and reporting standards of the AICPA and GAGAS. In addition, all required documentation must be properly indexed and maintained in the project file, in accordance with the Office’s standards for working paper maintenance.
CHAPTER 7
NON-AUDIT SERVICES
Traditionally, the most significant amount of resources of the Office of Management and Compliance Audits is dedicated to performing audits of the school system. However, the Office also applies resources to performing non-audit services.

According to GAGAS, non-audit services are professional services other than audits or attestation engagements. The Institute of Internal Auditors’ PPF terms non-audit services as “consulting services” and defines such services as advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization’s governance, risk management and control processes without the internal auditor assuming management responsibility.

Non-audit services performed by the Office of Management and Compliance Audits may stem from the following:

- A request from management
- A request from those charged with governance
- A request from the Audit and Budget Advisory Committee
- Requirement of School Board Policies
- Initiated by the Chief Auditor

In general, non-audit services may involve providing professional services, other than an audit or attestation engagement, for the benefit of management, either on a specific non-recurring subject matter or on routine activities. For example, in the case of the former, management might ask the audit department to review a draft of proposed procurement policies and provide its feedback prior to those policies being finalized. In the case of the latter, the audit department may be statutorily required to monitor the financial conditions of district-sponsored charter schools.

Both the Institute of Internal Auditors’ PPF and the AICPA’s Statements on Standards for Consulting Services (SSCS) provide guidance to auditors when performing consulting services. GAGAS does not cover non-audit services. Therefore, the Office of Management and Compliance Audits does not report that the non-audit services it performs were conducted in accordance with GAGAS. Nevertheless, GAGAS, PPF and SSCS require auditors who perform non-audit services for entities for which they also perform attest or assurance services to assess potential threats to independence in connection with such attest and assurance services and to document their assessment. In any event,
Non-audit Services

whenver the Office of Management and Compliance Audits is requested to perform or initiates a non-audit service, an assessment of potential threats to independence, particularly the management participation and self-review threats, must be conducted and documented using the Assessment Checklist for Non-audit Services.

REQUIRED DOCUMENTATION

Prior to commencing a non-recurring non-audit services or routine non-audit services that are significant in terms of estimated time incurred or resources expended, which will result in the Office producing a formal report or other formal work product, the Auditor-in-Charge must complete the Assessment Checklist for Non-audit Services, with the Assistant Chief Auditor’s or Chief Auditor’s approval therewith.

If it is determined that the Office could perform the non-audit service, the Chief Auditor should ensure that management, where applicable, is aware that they: (a) assume all management responsibilities; (b) will oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; (c) will evaluate the adequacy and results of the service performed; and (d) will accept responsibility for the service.

The Assistant Chief Auditor will also prepare an engagement letter or Memorandum of Understanding to establish and document the department’s understanding with management or those charged with governance, as appropriate, regarding the following: (a) the objectives of the non-audit service; (b) the services to be performed; (c) the audited entity’s or management’s acceptance of its responsibilities; (d) the Office of Management and Compliance Audits’ responsibilities; and (e) any limitations of the non-audit service.

All required documentation must be properly indexed and maintained in the project file, in accordance with the Office’s standards for working paper maintenance.

REPORTING COMPLIANCE WITH STANDARDS

Formal reports or other formal work products issued in connection with non-audit service performed must contain the required disclosure of its limitations; clearly state that the service performed is not an audit.
CHAPTER 8
DEVELOPING FINDINGS
Developing Findings

Findings are the summation of the facts developed during the audit, which respond to the audit objectives. To be valid, findings need to be wholly consistent with the evidence on which they are based.

Auditors should report findings by providing credible evidence that relates to the audit objectives. These findings should be supported by sufficient, competent, and relevant evidence and be presented in a manner that promotes adequate understanding of the matters reported and provides convincing but fair presentations in proper perspective. When reporting findings, the report should provide selective background information to establish the context for the overall message and to help the reader understand the findings and significance of the issues discussed. Auditors should also provide proper perspective by describing the work performed that resulted in the findings. These descriptions give the reader a basis for judging the prevalence and consequences of these findings. The deficiencies or instances identified should be related to the population or the number of cases examined and should be quantified in terms of dollar value, if appropriate.

The development of findings calls for application of the five basic elements:

- **Criteria** - a standard or reasonable basis of measurement
- **Condition** - a description of the existing situation and knowledge of the extent to which it deviates from the standard
- **Cause** - a clear understanding of the reasons for, or cause of, the variance
- **Effect** - an awareness of the significance of the problem and why the auditee management should be concerned about the variance
- **Recommendation** – actions needed to correct conditions noted. The quality and reasonableness of recommendations are predicated on the proper identification of problem causes. If the cause can be resolved by implementation of the recommendation, then, logically the adverse condition will be corrected. The “reasonableness” of the recommendation is indicated if a reasonable person, detached from the audit and the auditee, would accept the logic and conclusions summarized in the finding and recommendation.
The elements of a finding are related to the underlying objectives of the audit. Therefore, not all of the above elements need to be present in a finding, depending on the audit objective; but rather, a finding would be deemed complete if it contains the elements necessary to address the audit objective.

**STATEMENT OF CRITERIA**
(What should be?) Criteria represent an important first step in the development of an audit finding. They, after all, reflect the goals and objectives set by management for accomplishment; and inevitably, are the standards upon which actual performance will be evaluated. Criteria may either contain legal authority or “softer” universal features of sound internal control or generally accepted best practices. Wherever applicable, a specific government regulation or agency policy or procedure should be referenced.

The Statement of Criteria provides information that enables School Board officials to determine the required or desired state or what the program or operation is expected to accomplish. Criteria are the laws, regulations, contracts, grant agreements, policies, procedures, standards, measures, expert opinions or expectations that define what should exist. They can also be best practices or benchmarked performance of similar entities or the private sector against which performance can be compared or evaluated.

In selecting criteria, auditors need to use criteria that are reasonable, attainable, and relevant to the objectives of the audit. Even when auditors state the criteria, such as by citing regulation or law, audit staff needs to be alert to whether the criteria are valid for the purpose intended. Circumstances may have changed since the criteria were established, and they may no longer conform to sound management principles or reflect current conditions. Some criteria used include:

- Goals established by federal and state legislation, DOE regulation, or Board rules
- Statements of principles and standards from recognized professional source
- Analytically developed measures, such as the most economical quantity of stock to maintain on hand (for comparison with actual warehouse stock levels)
- Baseline data, such as the condition that existed before the introduction of a program
- A control group not involved in the program being measured or a comparison organization following different practices
- A comparable program or function at another public school system or in the private sector

Sometimes, criteria do not exist or are not readily measurable. In those cases, audit staff can assert or seek acceptable criteria. When audit staff develops criteria, they need to be convincing to a reasonable reader. For example, audit staff can look for existing criteria in similar programs or operations; review existing literature and identify the measurement criteria used by experts in the field; and/or meet with management, experts, consultants, or focus groups to develop criteria.

Once criteria are selected or developed, audit staff must assess the criteria’s potential to be logical, sufficient, relevant, competent, appropriate, feasible, valid, and convincing to and accepted by others. Audit staff should try to obtain advance concurrence and agreement on the appropriateness of the criteria with management.

Criteria should be stated fairly, explicitly and completely.

**STATEMENT OF CONDITION** (What is the problem?) The condition describes the operation, procedure, or control, as it exists. As such, this element constitutes the central thrust of the audit finding. The condition portrays the results of the auditor’s procedures, what was obtained through observation, confirmation, inquiry and testing. It cannot be overemphasized that condition assessment is only as valid as the underlying methodology. *Appropriate* procedures performed, in an *appropriate* manner, using *appropriate* judgment, result in the *appropriate* identification of deficient conditions and firm, supported findings. In developing the condition, address a control objective or some other standard (criteria). Report the scope or extent of the condition so that the reader has an accurate perspective. When necessary and appropriate an auditor may estimate or assert conditions that cannot be more concretely determined but sound methodology must be used. Always include the necessary level of detail by keeping the needs of the reader in mind.

**STATEMENT OF CAUSE** (Why did it happen?) The cause discloses why the criteria (standards) were not achieved. Causes are as essential to the forming of constructive recommendations, as criteria are to the discovery of undesirable conditions. Despite this importance, causes
Developing Findings

are often difficult to determine. What is required in casual analysis is a high degree of analytical/reasoning skill. Suspected relationships must be tested and “hunches” corroborated by careful, detailed investigation. Answers to the following self-questions might provide helpful insights:

- What is the deficiency?
- Where did it occur?
- When did it occur?
- How large is it?

In any context, a problem is capable of being successfully identified. Document the cause and obtain direct statements from the auditee. Obtain the cause from the right individual(s).

**STATEMENT OF EFFECT**

(So what?) Audit findings are strengthened by documenting the results or risks involved, if the defective condition persists. Undoubtedly, this could mean the difference between the auditee’s concurrence with or rejection of the finding. Findings are further strengthened when the effects of a deficiency are translated into some quantitative expression. This might be in terms of dollars of revenue lost; quantities wasted; number of days’ delay in order processing; or percent of supplier turnover due to lax payment practices, to name just a few. Measure the loss and never exaggerate or minimize it.

**STATEMENT OF RECOMMENDATION**

(How might the situation be remedied?) Recommendations describe the proposed courses of action that management should consider in order to improve weaknesses in controls or increase procedural compliance. It should be stressed that recommendations are proposals by the auditor, not demands. Clearly, management has the responsibility of correcting audit findings. The auditor is an outside party “looking in”. Management has a decided advantage in its ability to determine the most effective course(s) of action. The final point under recommendations underscores the necessity of discussing audit findings with management prior to write-up of the formal report. Discussions with auditee personnel may reveal findings that are misplaced and yield recommendations that are impractical or cost prohibitive. Seeking management’s input in this difficult process is one proven way of minimizing the effects of such errors. Therefore, it is advantageous to the auditor to engage management in such discussions at the earliest possible time during the audit. There should be no surprises at the conclusion of the audit. Play devil’s advocate before finalizing the finding. Make sure the recommendation maintains the proper balance between the risk and the cost to control it. When drafting recommendations, auditors

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should keep in mind that they might be involved in follow-up activity months after the completion of the audit. They would do well to ask themselves if their draft recommendations are specific enough to be implemented and are capable of verification. For recommendations to be most constructive, they should be:

- Directed to those who have responsibility and authority to act on them
- Clearly identified and worded, so that there is no doubt that a recommendation was made
- Action-oriented and as specific as possible so there is no doubt as to what action is to be taken
- Well supported by and logically flowing from the facts
- Convincing as a basis for motivating action
- Significant and clearly demonstrate that they are worthy of action
- Positive in tone and content
- Responsive to underlying causes of the deficiencies they seek to correct
- Feasible, taking into account legal and practical constraints that would make their implementation impossible or unlikely
- Cost-effective with consideration of offsetting costs
- Measurable, to the extent feasible
- Based on the best alternative when more than one corrective action could be taken

Many deficiencies discovered and documented by the auditor do not warrant becoming reportable audit findings. Some are so immaterial or inconsequential that the costs of implementing corrective action would far exceed the benefits derived from placing that action into effect. Minor findings should be limited to discussion items. The impact of other deficiencies may be mitigated by the presence of compensating controls. All reportable audit findings should be:

- Significant enough to deserve being reported to management
- Documented by facts, not opinions, and evidence that is sufficient, competent and relevant
- Objectively developed without bias or preconceived ideas
- Convincing enough so that the conclusions reached are reasonable, logical and based on the facts presented; they should compel action to correct the defective condition

During the examination phase, the auditors will develop an informal listing of the major issues uncovered. The audit team should meet with the Chief Auditor periodically to discuss the significant issues and tentative findings as they are developed. These major agreed-
Developing Findings

upon issues/tentative findings will form the basis for discussions with program officials in the auditee organization during the examination and for the exit interview at the end of that phase. There should be no surprises for the Department/Program head at the exit conference or in the draft report. Findings and recommendations must be fully discussed as they are being developed so that the views and expertise of those officials can be brought to bear on the auditor’s deliberations.

Despite efforts toward open and constant communication with auditee officials, differences of opinion and conflict can arise during the course of the audit. If disagreement develops, auditors should discuss the matter at issue openly with the appropriate level of the auditee. When such disagreements are not immediately resolved, the issue area Audit Director in consultation with the Assistant Chief Auditor should inform the Chief Auditor, who will decide whether to take the issue to higher authority organizationally for resolution.

Rather than waiting until the end of the examination phase to reduce the emerging issues and tentative findings to writing, auditors should build on the informal listing, referred to above, to summarize the results of each activity during the examination phase. In the summary, the auditors should develop each tentative finding and describe the criteria, condition, cause and effect. Auditor’s suggestions on possible courses of action to resolve the problem or alleviate its effect will be refined to a recommendation during the report-writing phase.
CHAPTER 9
EVIDENCE
Evidence may be categorized as physical, documentary, testimonial, or analytical. Audit staff can use all types of evidence to support audits.

**Physical evidence** involves direct inspection or observation of people, property, or events. Some examples include:

- observing inventory-taking activities
- counting cash and bonds
- observing equipment testing
- examining assets, such as motor vehicles or computer equipment

Such evidence can be documented in memoranda, photographs, drawings, charts, maps, videos, or physical samples.

**Documentary evidence** is created information, such as letters, contracts, invoices, accounting records, and data from information management systems.

**Testimonial evidence** is obtained from witnesses through inquiries, interviews, statements, or questionnaires. In the Office of Management & Compliance Audits' work, testimony is received orally (through face-to-face or telephone interviews) or in writing (responses to data collection instruments, e-mails, or questionnaires).

**Analytical evidence** is derived from other evidence through computations, comparisons, separation of information into components, and rational arguments. For example, audit calculations that use information obtained from School Board case files are analytical evidence.

Evidence is gathered and evaluated throughout the assignment. Evidence should be sufficient, competent, and relevant so that it can provide a reasonable basis for the findings, conclusions, and recommendations.

Documentation of evidence should contain sufficient information to enable an experienced auditor who has had no previous connection with the engagement to ascertain from the documentation that the evidence supports the auditor's significant judgments and conclusions. Enough evidence should exist to lead a reasonable
Evidence

person to the same position that the Office of Management and Compliance Audits has taken.

Several different approaches can be used to establish the sufficiency of evidence, such as multiple observations or statistical methods. Judgments about sufficiency (type of evidence and quantity) take into account the controversial, sensitive, or significant nature of findings. When appropriate, auditors use statistical or analytical methods to establish sufficiency.

COMPETENCY OF EVIDENCE

In assessing the competence of evidence, auditors should consider such factors as whether the evidence is accurate, authoritative, timely and authentic.

Professional skepticism should be exercised throughout the assignment. In exercising professional skepticism, auditors should set aside prior belief that management is honest, and not be satisfied with less than persuasive evidence. Auditors may find it useful to obtain written representations concerning the competence and completeness of certain evidence from officials of the audited entity. If officials of the audited entity refuse to provide a written representation as requested, auditors should consider the effects of the refusal on the results of the audit.

Relevance, Validity and Reliability: To meet the competency requirement, auditors obtain evidence that is relevant, valid and reliable. Evidence is relevant if it has a logical relationship with, and importance to, the issue being addressed. Evidence is valid if it requires serious attention and is usually accepted by others. Evidence is reliable if it is accurate and complete. Competence is established by ensuring that the evidence was either obtained by using a professionally accepted methodology or was provided by a knowledgeable, experienced, reliable, independent, and unbiased source. In some cases, evidence obtained from a credible third party is more competent than evidence obtained from management or other officials of the audited entity. When appropriate, auditors use statistical or analytical methods to derive competent evidence.

If there is reason to doubt the competence of evidence, corroboration by other evidence is necessary. For example, if Internet information, including information obtained from official government sites, is used as evidence to support findings, conclusions, or recommendations, the team needs to contact
the owner of the document to corroborate that the document is accurate, the latest available, and reflects the current position on the issue.

Internal Controls: Evidence obtained when internal controls are effective is more competent than evidence obtained when internal controls are weak or nonexistent. For example, a signed, notarized document attesting to an official transaction would be competent evidence. Auditors should be particularly careful in cases when controls are weak or nonexistent and should plan alternative audit procedures to corroborate such evidence. When internal control or compliance requirements are significant to the audit objectives, auditors should collect and evaluate evidence directly relating to controls or compliance.

Physical Evidence: When relying on physical evidence, auditors minimize the likelihood that the evidence could be challenged by satisfying themselves that observations reasonably represent the condition observed and that the information obtained was representative. For example, if an observation is intended to represent a normal condition, staff should ensure that observations are not made at peak or slow periods.

Physical evidence can be recorded as memoranda, charts, photographs, maps, videos, or samples. The form in which it is recorded is normally the one that best establishes its competence and is most convincing. The competence of physical evidence is enhanced when the circumstances under which the observation was made are clear. For example, information is available on the time and place a photograph was taken, the camera angle that was used, and any circumstances involved.

Documentary Evidence: The competency of documentary evidence depends on its authenticity and the integrity of the system producing it. Examining original documents provides more competent evidence than examining copies. Although the authenticity of books and records taken from School District or contractor files can normally be assumed, the accuracy of the information in those documents should be established through appropriate testing. Manuals and other prescriptive statements are evidence of School District or contractor policy. However, unless they are determined (by appropriate test) to control day-to-day operations, they do not establish the organization’s
Evidence

When evidence is obtained directly or indirectly from School Board accounting, administrative, or management systems (i.e., evidence is computer-processed data) and is significant to the audit objectives (i.e., evidence is crucial to supporting findings, conclusions, and recommendations), the audit team should take steps to assess whether the data are sufficiently reliable for inclusion in the report.

Testimonial Evidence: When appropriate, the testimony of more than one knowledgeable person should be obtained to provide a balanced and objective perspective. Care should be taken to get views from persons with opposing views. When possible, corroborating evidence should be obtained.

Regardless of how testimonial evidence is obtained, its competency depends on three factors related to the respondent:

- **Knowledge of the matter**

  Staff needs judgment and perception to determine the appropriate people to be interviewed. For example, interviewing a person in a high-level position does not always ensure the competence of the information furnished. He or she may be new in the position or may otherwise lack the detailed firsthand knowledge that a subordinate might have.

- **Personal and professional reputation**

  When the testimony of technical and scientific staff is the primary or sole support for a finding, conclusion, or recommendation, it is important to carefully determine their reputations. This determination could include their degree of independence, professional credentials, membership and role in professional associations, and the views expressed about their work in publications and by professional colleagues.

- **Independence and lack of bias**

  When an official or an employee makes statements that are critical of the District, the testimony should be
corroborated through other forms of evidence. This can be done by obtaining the testimony of others who are familiar with all or some of the information, comparing the testimony with documents or other forms of evidence, or both. If corroboration is not feasible, the report should disclose the source of the evidence and explain why it was not corroborated.

Testimonial evidence obtained under conditions in which individuals may speak freely is more competent than testimonial evidence obtained under compromising conditions, such as those in which individuals may be intimidated. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area.

**Analytical Evidence:** To obtain competent, analytical evidence, audit staff must use a professionally accepted methodology that ensures the following:

- the mathematical computations and comparisons are accurate
- the sample size reduces random error to an acceptable limit
- repeating the method produces the same or similar results
- the universe for sample selection is appropriate
- the sample is representative of the universe
- the information measures the attributes under review (e.g., is educational attainment established by information on the number of grades completed?)
- the questionnaire design controls for systematic bias (e.g., the questionnaire promotes truthful responses)
- the computer software and the data are reliable enough for our purposes.

**RELEVANCY OF EVIDENCE**

To be relevant, evidence needs to have a logical, sensible, and important relationship to the issue being addressed. The evidence makes the finding, conclusion, and recommendation convincing and believable. Engagement objectives and planned use of evidence to support findings are the basis for determining relevance. If the information is not relevant, it is not evidence and should not be collected because collecting unneeded information wastes valuable audit resources.

If the available evidence does not fully meet the requirements for
Evidence

sufficiency, competence, and relevance, it should not be used.

Using the work of external auditors to meet the audit objectives can reduce cost and time requirements. However, the auditor must ensure that the work being relied upon meets the evidence requirements herein. Audit staff may similarly rely on the work of external consultants, experts and specialists. In ensuring the quality of the work of others, audit staff should consider the knowledge, experience, competence, independence, professional qualifications and reputation, and lack of bias of those who did the work. In all cases, the audit report must disclose the source of the data that was relied upon.
CHAPTER 10
WORKING PAPERS
WORKING PAPERS

Audit working papers serve certain basic purposes for every type of audit. In order to achieve those purposes, working papers need to be properly maintained whether in electronic or hard copy paper form. Following is an explanation of the basic purposes of working papers and some recommendations for working papers content and readability. These guidelines are applicable to both electronic and hard copy paper working papers files.

Working papers are used by the auditor to:

- Demonstrate the extent of audit work performed
- Serve as a basis for audit conclusions
- Document evidential support for the audit report
- Facilitate and document planning, supervision and review of the audit
- Establish a starting point for subsequent audit assignments
- Aid in the professional development of the internal audit staff
- Document compliance with applicable standards governing the work performed
- Provide evidence as to the competence of audit staff

In most cases, the content and readability of working papers can be improved. Although known to most internal auditors, certain basic methods for overall improvement in working papers are often neglected or overlooked. They are as follows:

Appropriate Identification – Each working paper should have a heading, a description of the contents, a preparation date, the initials of the preparer, and some form of code number for cross-referencing. To the extent practicable, each working paper (or series of working papers) should identify at the bottom of the page its Source, Purpose, Scope and Conclusion.

Excessive Material – Do not include excessive or extraneous material within the working papers. Include only what is essential and germane to the audit.

Electronic Working Papers – Include backup disks of all electronic working papers including the draft report in the working paper files.
Indexing – A set of neat, well-indexed working papers is the work of an effective auditor. A system for indexing should be adopted that is consistent, using letters and numbers. The numbering system to be used will depend on the assignment.

On school audits, there is a numbering system combining letters and numbers that must be followed. When in doubt, inquire with the Assistant Chief Auditor, Division of School Audits.

On performance and financial audits, and attestation engagements, a dual-numbering system is to be used. In this system, a letter to the left denotes the type (section) of working paper, and numbers to the right of the hyphen denote the sequential order of the working papers. See required sections in the following table:

<table>
<thead>
<tr>
<th>Required Sections</th>
<th>Work Paper Tab</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Report</td>
<td>A</td>
<td>Include copy of referenced draft report and the final report (reference any subsequent changes to the report to appropriate working papers).</td>
</tr>
<tr>
<td>Planning &amp; Supervision</td>
<td>B</td>
<td>Supervisory Review Notes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Statement of Independence</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Audit Planning Memo</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk Assessment Worksheet</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Checklists (e.g., Planning, Internal Controls, Walk-through)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Audit Plan/Guide</td>
</tr>
<tr>
<td>Correspondence/Conferences</td>
<td>C</td>
<td>Engagement letter/meetings including entrance &amp; exit conference other correspondence &amp; exchanges of e-mail relating to audit.</td>
</tr>
<tr>
<td>Summary of Audit Findings</td>
<td>D</td>
<td>Findings Facts Sheets referenced to relevant work papers.</td>
</tr>
<tr>
<td>General Working Papers</td>
<td>E-Z</td>
<td>Organize working papers around individual audit objectives and findings.</td>
</tr>
</tbody>
</table>

Cross-referencing – The cross-referencing system should be bi-directional and permit items to be traced not only from working papers to the audit report, but also from one working paper to
another working paper. For example, if an item in working paper H-3 is related to accounts receivable, which has been indexed as H-6, such item should be cross-referenced by having an H-6 next to it. The related item on working paper H-6 should be cross-referenced back to H-3.

**Explanatory Notes** – Unless standard tick marks or symbols are used and explained at the front of the working paper file, each working paper should identify the meaning of each symbol (tick mark, square, triangle, etc.) that has been used for indicating verification of items. Regardless of the system used, tick mark, symbol or notation, each working paper or series of working papers should indicate the auditing procedure(s) performed by the auditor. For example, the auditor may need to indicate that the total contained on the working paper has been footed and cross-footed; or that the content of the document has been read/reviewed. Major working papers or lead sheets used to document audit testing relating to specific audit objectives should contain a conclusion relative to the audit objective tested.

**Notations** – Leave space at the bottom of each working paper for the addition of comments by reviewers and for any other data that might be added subsequently.

**Internal Audit Notes** – During the course of the audit, the audit staff should maintain a list of:

- questions raised and not yet answered
- additional steps to be taken by the Department or function under audit
- items to be verified or followed up on
- any noted exceptions

Such noted items should be cleared and indicated as such on the working papers by the audit staff to their satisfaction before completion of the audit.

**Integration of Changes** – Where a change affects a number of schedules or working papers, it should be carried through so that each working paper reflects the final information.
**Working Papers**

**Tape Odd-Sized Working Papers** – In order to ensure neatness, tape odd-sized working papers, such as receipts and adding machine tapes to larger sheets of paper.

**Maintain Multiple Schedules** – In order to develop a concise and logical set of working papers, use multiple schedules. For example, if an internal financial audit is being conducted that includes a review of the District’s bank accounts, use a multi-column spread sheet and list each bank reconciliation in a separate column, rather than preparing separate working paper for each bank reconciliation.

**Use Lead Schedules** – The use of a lead schedule is effective for financial audits where trial balance figures are generally transferred to a lead schedule for each major group of accounts, such as cash, receivables, inventories, and fixed assets. For example, if there are a number of fixed assets accounts, they should be listed on a fixed assets lead sheet. The total of this lead sheet would then be entered on the working balance sheet; this should contain only one caption for “fixed assets.”

Each lead schedule should then be supported by detailed and indexed working papers arranged in the same order that the accounts are listed on the lead schedule.
CHAPTER 11
REPORT PREPARATION
AND PROCESSING
REPORT PREPARATION AND PROCESSING

Reports are the essential link ensuring accountability for public school resources. They are to provide essential information to the Board, the Audit and Budget Advisory Committee and the Superintendent to establish whether:

- district resources are managed properly and used in accordance with laws and policies
- programs are meeting their objectives and are achieving intended outcomes
- funds are being spent efficiently, economically and effectively

All material or significant facts should be disclosed in the audit report.

If an audit is terminated before it is completed, auditors should document the audit by preparing a memorandum for the record that summarizes the results of the work and explain the reason the audit was terminated. The Chief Auditor should communicate this to the Audit and Budget Advisory Committee and Superintendent.

Audit reports should be issued in a timely manner so that management is in a position to bring about needed changes.

All reports should include:

- Basis of authority
- Background
- Objectives
- Scope
- Methodology
- A summary of findings and conclusions
- Detailed findings and recommendations
- Response from audited official (auditee)

All reports must include a statement that the audit was performed in conformity with generally accepted government auditing standards (GAGAS) or other applicable standards. Scope limitations and/or departures from the cited standard must be adequately disclosed and explained in the report. The depth and coverage of the Office of Management & Compliance Audits' work must be explained in proper perspective.
The reader should have a sound basis to assess the adequacy of coverage in relationship to the audit’s objectives and the findings reported. Readers should not have to make assumptions about the steps taken to perform the audit or the depth of the inquiry. Detailed findings should provide credible evidence that relates to the objectives. To the extent possible the elements of criteria, condition, cause and effect (see Chapter 4 – Performance Audits) will be included so that the reader can understand the context within which corrective action need to be taken.

Findings should be reported in the proper perspective by describing the work conducted that resulted in the finding(s). The purpose of the description is to give the reader a basis for judging the prevalence and consequences of the finding(s). The instances identified should be related to the population or number of cases examined and quantified in terms of dollar value, if appropriate. For example, if the audit team found contracts that were awarded contrary to Board Policies, the total number and dollar value of contracts awarded should be disclosed, as well as the number and dollar value of the improperly awarded contracts. If the results cannot be projected, this should be disclosed and the auditors should limit their discussion to the items tested.

A draft report will be provided to responsible officials for their review and comment and should be the subject of discussion at the exit conference. It is essential that each page of the draft report have the following caption in the header:
Draft reports and working papers are statutorily protected from public view until the audit report is finalized. The decision to release any materials protected under the statute to any individual not employed by the School District will be made only by the Chief Auditor in consultation with the School Board Attorney.

The views of responsible officials must be included in all audit reports if received in writing. Responsible officials should be provided with ample time to complete their written comments. A response typically should be requested within ten business days from the issuance draft report. A copy of the official written comments, or a summary of the comments received, must be included in the report. The comments of the responsible official should be evaluated for accuracy and relevance. Where those comments are found to be inconsistent or in conflict with the audit findings, conclusions or recommendations, the auditor may add clarifying comments and his/her reasons for disagreement with the comments of the responsible officials. Conversely, the auditor should modify the report if the comments of the responsible officials are found to be valid. If the responsible officials refuse to provide written comments, the report should indicate that written response was sought, but was not provided.

A report, whether in draft form or in final form, will be released only after the report and supporting working papers have been reviewed and certain other steps have been completed. To assist in the process, a Report Processing Checklist shall be completed for each audit report and special project report. The Report Processing Checklist contains several steps. The Chief Auditor may waive certain steps such as response due dates, etc.

The purpose of the Report Processing Checklist is to provide a guide and road map to assure each report is processed through certain essential steps before it is issued. The name of each responsible staff member shall be shown on the Report Processing Checklist as the report clears each step. The date each step was completed shall also be shown. The Report Processing Checklist shall be included as part of the working papers.

An outside letter addressed to the auditee transmitting a copy of the report shall be prepared and contain at least four elements:
Report Preparation and Processing

1. A statement of transmittal
2. A statement that the report includes recommendations for corrective action
3. A statement of appreciation for the auditee’s cooperation
4. A statement that a written response is to be prepared

Appropriate distribution of formal audit reports is made by the Chief Auditor’s administrative staff in accordance with the approved Report Distribution Checklist.

The report, in its final form, should be placed on the Office of Management and Compliance Audits’ website and made available to the public.

If, after the report has been issued, it is discovered that evidenced used to support the reported findings and conclusions are insufficient or inappropriate, the matter should be discussed with the Assistant Chief Auditor and Chief Auditor. To the extent that error is significant or material, it should be communicated to those known to have received and relied upon the originally issued report; a revised report must be issued; and posted on the Office’s website after the removal of the previously issued report.
CHAPTER 12
QUALITY ASSURANCE
QUALITY ASSURANCE

Generally Accepted Government Auditing Standards require that audit organizations performing audits need to undergo an external peer review and have an appropriate internal quality control system in place.

Our audit reports must be accurate, reliable, and credible. Furthermore, there should be no errors in logic and reasoning. One way to ensure the correctness and reasonableness of matters reported in our work products is to maintain an internal quality assurance process. This entails a review of all draft reports, whereby the content of a report is independently checked within the Office of Management & Compliance Audits by, or under the direction of, the Assistant Chief Auditors. Our quality control system, which includes supervisory review, quality assurance, and periodic peer reviews, satisfies the need for our work products to be recognized for accountability, integrity and reliability.

PEER ASSURANCE

The audit activities of the Office of Management & Compliance Audits are subject to quality review at least every three years by a professional, non-partisan objective group utilizing guidelines endorsed by the U.S. General Accountability Office. The Chief Auditor has designated the Association of Local Government Auditors as the preferred peer review body for this office. Upon completion, the written report of the independent review will be presented to the Audit and Budget Advisory Committee, the School Board and the Superintendent, as well as posted on the Office’s website.

DRAFT REPORT REVIEWS

Upon completion of a project, a copy of the draft report, thoroughly referenced to supporting documentation, should be submitted to the issue area Assistant Chief Auditor for review. Completed working papers must accompany the draft report.

Should the Assistant Chief Auditor be unavailable to perform this function, he/she should designate a Quality Assurance (QA) Reviewer. To perform the QA function, a designee must be experienced and trained to do so and must not have worked on the audit being reviewed. The review will be documented using a QA Work-Paper/Report Review/Coaching Notes form.

The QA review is not a substitute for the supervisory review of working papers and report that are normally performed and documented in the working papers.

Following the QA review, the report will be returned to the auditor for appropriate changes. The auditor will make the changes to the report.
and resubmit it to the QA reviewer who will ascertain whether appropriate changes were made. This process will continue until the report is approved by QA.

The report review process, whereby the content of a report is independently checked within the Office of Management & Compliance Audits, must be followed without exception. The report review includes verifying that statements in the report are supported by adequate working paper documentation. The basic objectives of the review is to verify the accuracy of all facts stated and to ascertain whether the underlying working papers and related materials adequately support the findings included in the report.

Working papers and draft report review is an essential internal control process between the performance of the work and the release of a final report. It involves and includes the following:

- A careful review of the text of the report and the supporting schedules and exhibits as to general form, content, clarity, correctness of expression, and consistency with past reporting formats.
- The examination of satisfactory evidence in our files or the performance of necessary mathematical or clerical checks, to prove that every statement of fact and table/schedule in the report is correct.
- Checking every figure and every statement of fact for consistency within the report itself and back to the working papers. In general, it should not be necessary to go beyond the top schedules of the working papers.
- The review of all working papers and satisfaction with the work performed and agreement with the conclusions recorded, should be signified by the QA Reviewer initializing each worksheet or groups of worksheets.
- Checking all legal citations by the reviewer to assure that they are accurate and current.
- The QA Reviewer should be satisfied that the working papers demonstrate that an adequate level of supervisory review is evident.
- The QA Reviewer should be concerned with grammar and choice of words only insofar as clearness of meaning is concerned. The draft of the report should be grammatically correct when it reaches the QA Reviewer.
The opinions, conclusions, and recommendations proposed in a report are initially those of the individual responsible for preparing the report and result from considerable experience and firsthand knowledge of the program activities examined. The QA Reviewer may have insufficient knowledge to either approve or disapprove those matters. Nevertheless, they should be alert to question anything that looks reasonable, should record their views when they believe opinions, conclusions, and recommendations are not consistent with or supported by the factual material they have examined. The Chief Auditor should be consulted in these types of cases.

Referencing Marks and Points: The QA Reviewer will use a colored pencil or other electronic notation to indicate the extent of his/her verification and to signify satisfaction with the supporting material. The QA Reviewer should place an individual check mark (✓) over each figure, each date, each citation to legal or other reference material, and each proper name of a person, place or thing that appears in the draft report.

QA Checklists: QA checklists are included in the addendum and should be used by the Assistant Chief Auditor and the designated QA Reviewer to assist in the referencing process.

The referenced draft report along with the completed Work-Paper/Report Review Notes form(s) and QA Checklists must be included in the official working paper files for every audit.

At least annually, the Chief Auditor will designate the appropriate staff member(s) to perform a review of the audits, engagements and non-audit services completed and published during the fiscal year, to ensure: (1) adherence to professional standards, (2) the quality control system has been appropriately designed, and (3) quality control policies and procedures are operating effectively and complied with. To satisfy these objectives, annually each member of the staff will be required to review the Office Policies and Procedures Manual and Government Auditing Standards and sign a statement attesting that they have done so. The staff designated to review the audits, engagements and non-audit services will determine the level of compliance with each staff member meeting the continuing professional education requirements of Governmental Auditing Standards. They will also ensure that the audits, engagements and non-audit services completed by this office are evidenced by appropriate documentation, ensuring that the working paper files are complete and comport with adopted policies, procedures, and standards.
CHAPTER 13
FOLLOW-UP
FOLLOW-UP

Without follow-up to ensure that corrective action is taken, the value of our work is diminished. Accordingly, the Office of Management and Compliance Audits will maintain an Audit/Recommendations database. As audits are assigned an entry will be made in the database by administrative staff. This entry may contain essential information:

- The audit number
- The audit title
- Responsible department(s)/office(s)
- Objectives of the audit
- The responsible Audit Director
- The name of the Auditor-in-Charge

Upon completion of every report an entry will be made in the database directly from the report for each recommendation. These entries will, at a minimum, contain each recommendation number, recommendation description, responsible school district department/office, management’s response, and the projected completion date.

Each issue area audit group will be responsible for performing follow-up activity and subsequently updating the working papers for their individual projects. Adequate and timely follow-up is essential to close the review cycle.

The scheduling of the follow-up is dependent upon the results of the review, management’s committed implementation due dates, and work priority. Normally, follow-up activity should take place within 6 to 18 months. The level of difficulty in achieving the recommended action and Office of Management and Compliance Audits’ audit resources and priorities will influence the schedule for following up. Follow-up activity consists of monitoring compliance with, conformance to, or completion of, the changes called for in the findings and recommendations.

As soon as all agreed upon recommendations are implemented and all disputed recommendations are resolved, the working papers supporting implementation should be added to the working paper files. In addition, as each follow-up is performed, information should be conveyed to administrative staff so that they can update the database. Accordingly, audit staff should convey to administrative staff the status of the implementation, revised completion dates, and any other auditor comments that they wish to have annotated in the database.
The database system should contain standardized audit/recommendation reports. These reports will serve as a useful source of information for both District and audit staff to monitor implementation.

The Audit and Budget Advisory Committee will receive periodic progress reports from both Management and the Chief Auditor regarding corrective action being taken to eliminate audit exceptions.
SUPERVISION

Supervisors will prepare performance appraisals by honestly and accurately evaluating staff’s adherence to the performance standards established for their positions. Supervisory review of audit work must be documented in the working paper files before the report is issued.

Immediate supervisors are to review individual audit documents to determine whether they are complete, accurate, clear and understandable. This review has a three-fold purpose. It documents the fact that the supervision standard is followed but more importantly enables the supervisor to identify any need for collecting additional evidence and provide feedback to staff on their performance. Signing and dating working papers and preparing review/coaching notes are the traditional methods used in the Office of Management & Compliance Audits for documenting supervisory review.

Supervisors are responsible for ensuring that staff is provided with appropriate tasks, given their skills and proficiencies, and that proper supervision is provided during all phases of an audit. Supervisors are responsible for overseeing the individual development of staff through coaching and providing feedback and observing and rating performance.

STAFF DEVELOPMENT

In order to comply with Government Auditing Standards, the Office of Management & Compliance Audits will maintain a program to ensure that qualified and competent individuals are hired and staff maintains professional proficiency through continuing education and training. Similarly, the Standards for the Professional Practice of Internal Auditing require that auditors maintain their technical competence through continuing education.

To satisfy these requirements, a detailed job description listing minimum educational and/or work experience is developed for each professional auditing position within OMCA. Candidates for these must undergo a Human Resource-directed competitive and evaluative screening and interview process by a committee, whose recommendations are forwarded to the Chief Auditor.

To further satisfy professional proficiency requirements of Government Auditing Standards, auditors responsible for planning, directing, or conducting audits will complete, every 2 years, 80 hours of continuing education and training, which contributes to the auditor’s professional proficiency. At least 20 hours will be completed in any one year of the 2-year period. At least 24 of the
80 hours will be related to the government environment and government auditing or the specific or unique environment in which we operate. It is the intent of this office that the reporting period for continuing education and training coincide with the fiscal year. It is also intended that the 2-year reporting period established for this office be a “rolling 2-year” period.

Each auditor is responsible for ensuring that he/she obtains the required amount and competency of continuing professional education (CPE) and for reporting CPE credits earned to the Chief Auditor’s designee for monitoring CPE reporting. The staff designated by the Chief Auditor will periodically monitor the training needs of the staff and the number of completed CPE credits each staff has reported to meet the above requirements. The “Continuing Professional Education” requirements shall be prorated for staff actively employed for only a portion of a year due to extended leave or a change in employment in accordance with Government Auditing Standards, Guidance on GAGAS Requirements for Continuing Professional Education, April 2005, issued by the Comptroller General of the United States of America.

The continuing education and training may include such topics as current developments in audit methodology, accounting, assessment of internal controls, principles of management and supervision, financial management, statistical sampling, audit design, data analysis, construction, procurement, IT and other topics related to the auditor’s field of work.

Upon completion of the continuing education or training, each auditor will be responsible for ensuring that evidence of his/her training is properly documented. In addition, a database will be maintained to summarize each staff member’s training.
CHAPTER 15
FORMS
<table>
<thead>
<tr>
<th>FORM</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
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<td>Annual Policy and Procedures Manual Review Form</td>
<td>74</td>
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<td>Auditor Assignment &amp; Independence Statement</td>
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<td>Audit Program Guide</td>
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<td>Planning Checklist for Performance Audits</td>
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<td>Risk Assessment Worksheet</td>
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<td>Quality Control Checklist</td>
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<td>Assessment Checklist for Nonaudit Services</td>
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OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS
ANNUAL POLICY AND PROCEDURES MANUAL REVIEW FORM

Purpose: To ensure and to document auditor’s compliance with the policy of the Office of Management and Compliance Audits and Government Auditing Standards (3.05 and 3.59).

Acknowledgement:

I certify that I have reviewed the current version of the Faraway County Public Schools Office of Management and Compliance Audits Policies and Procedures Manual.

____________________________________
Print Name

____________________________________
Signature

____________________________________
Date
Office of Management & Compliance Audits

AUDITOR ASSIGNMENT & INDEPENDENCE STATEMENT

COMPETENCY GENERAL STANDARD: The staff assigned to perform the audit or attestation engagement should collectively possess adequate professional proficiency for the tasks required.

Procedures: To document that the professional proficiency of the audit staff was considered by the Assistant Chief Auditor, the following is to be completed by the Assistant Chief Auditor at the time of assignment.

Report Title/Number: _______________________________________________________

Auditor(s) Assigned:

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
____________________________________________________________

The auditor(s) assigned to this audit collectively possess adequate professional proficiency as required by generally accepted government auditing standards (GAGAS 3.69, 3.72 through 3.75 and GAGAS 6.45).

Assistant Chief Auditor __________________________ Date ______________________

INDEPENDENCE GENERAL STANDARD: In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence.

The independence general standard holds the auditor and the audit organization responsible for maintaining independence and ensuring that the opinions, conclusions, judgments and recommendations rendered are impartial and viewed by third parties as impartial (independence in fact). It also requires that consideration be given to situations that might lead others to question their independence (independence in appearance).

Procedures: To document that audit management and staff are free from personal and external impairments to independence, the following statement is to be signed by the Auditor and Assistant Chief Auditor at the time of the audit assignment.

The Auditor(s), and supervisory staff assigned to this audit engagement whose signatures are affixed below have reviewed and assessed their compliance with the independence considerations prescribed by generally accepted government auditing standards (GAGAS 3.02 through 3.32) and are free of personal and external impairments to independence. Impairments to independence, if any, must be documented in the audit file.

Auditor __________________________ Date ______________________

Auditor __________________________ Date ______________________

Assistant Chief Auditor __________________________ Date ______________________
### Faraway County Public Schools
Office of Management & Compliance Audits
Audit Program Guide

[Enter Audit Title]

<table>
<thead>
<tr>
<th>Budget Hours</th>
<th>Audit Procedures</th>
</tr>
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</table>

### Background

[Enter description of audit area.]

### Statistics

[Enter comparative figures (financial or activity based)]

### Planning the Audit

1. Complete the Auditor Assignment and Independence Statement form.
2. Prepare and send an entrance letter to applicable personnel in the area under review.
3. Conduct an in-house review of the following:
   a) Financial Data
   b) Internal Policy & Procedures Manuals
   c) Applicable Rules, Laws and Regulations, and
   d) Prior internal audit reports and management comments.
   e) Review the CAFR for any applicable comments in the management letter and notes on the financial statements.
4. Schedule and hold an entrance conference with the Auditee. Obtain the name of the departmental contact person and secure a place from which to conduct the fieldwork portion of the audit.
5. Begin Preliminary Survey by interviewing the appropriate personnel in the Auditee Department. Document the interviews with narratives in the work file.
6. Review and document Internal Control System. (Include control points, such as the location within the system of approvals, authorizations, segregation of duties, supervision, reconciliations, computer-generated error and edit listings, exception reports, etc.)
7. After gaining an understanding of various functions, conduct transaction walk-throughs. Revise documentation.
8. Assess the reliability of computer-processed data –
<table>
<thead>
<tr>
<th>Budget Hours</th>
<th>Audit Procedures</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>(a) Identify all computer-generated data that will be used during the audit.</td>
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<tr>
<td></td>
<td>(b) Determine how the data will be used in the audit. If used as the sole evidence supporting a finding or as corroborative or supporting evidence – assess the data’s reliability by performing steps (c) to (g). If it will be used as background information – cite the data’s source and no further work is required.</td>
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<td></td>
<td>(c) Document how the data is used in decision-making and the extent of users’ reliance on the data.</td>
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<td></td>
<td>(d) Review any evaluations of the system, application and data performed by an independent third party (e.g., external auditor’s management letter).</td>
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<td>(e) Identify and document any input, processing and output controls and controls over data adjustments.</td>
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<td>(f) Test the identified controls and data elements that will be used during the audit by tracing a sample of data records to the source documents and a sample of source documents to the database.</td>
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<td></td>
<td>(g) Summarize the test work and results and conclude on the data’s reliability.</td>
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<td></td>
<td>9. Prepare a risk analysis listing the strengths and weaknesses of the system and reference risk assessments to audit objectives.</td>
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<td></td>
<td>10. Prepare the audit program and include a time budget and estimated completion date. Index the preliminary survey file and turn in for review.</td>
</tr>
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<td></td>
<td>11. Complete the Planning Checklist form.</td>
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<td>12. Revise the audit program, if necessary.</td>
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</tbody>
</table>

**Audit Scope**

Based on the work performed during the preliminary survey and the assessment of risk, the audit period will cover the operations of [enter auditee] from [enter date] to [enter date].

**Audit Objectives**

1. [List all audit objectives]

**Objective 1: [enter objective]**

1.
2.
3. Discuss any audit findings with issue area Audit Director.
<table>
<thead>
<tr>
<th>Budget Hours</th>
<th>Audit Procedures</th>
<th>Done By</th>
<th>W/P Ref.</th>
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<tbody>
<tr>
<td></td>
<td>After receiving approval discuss audit findings with Auditee management.</td>
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<td>4. Summarize and conclude.</td>
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<td><strong>Objective 2: [enter objective]</strong></td>
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<td>7. Discuss any audit findings with issue area Audit Director.</td>
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<td>After receiving approval discuss audit findings with Auditee management.</td>
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<td>8. Summarize and conclude.</td>
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<td><strong>Objective 3: [enter objective]</strong></td>
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<td>11. Discuss any audit findings with issue area Audit Director.</td>
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<td>After receiving approval discuss audit findings with Auditee management.</td>
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<td>12. Summarize and conclude.</td>
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<td><strong>Objective 4: [enter objective]</strong></td>
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<td>15. Discuss any audit findings with issue area Audit Director.</td>
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<td></td>
<td>After receiving approval discuss audit findings with Auditee management.</td>
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<td>16. Summarize and conclude.</td>
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<td><strong>Objective 5: [enter objective]</strong></td>
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<td>19. Discuss any audit findings with issue area Audit Director.</td>
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<td></td>
<td>After receiving approval discuss audit findings with Auditee management.</td>
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<td>20. Summarize and conclude.</td>
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<td></td>
<td><strong>Audit Wrap Up</strong></td>
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<td>21. Complete and index the working papers.</td>
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<td>22. Prepare a preliminary draft of the audit report.</td>
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<td>23. Clear review notes.</td>
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<tr>
<td>Budget Hours</td>
<td>Audit Procedures</td>
<td>Done By</td>
<td>W/P Ref.</td>
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<td>24. Have the Quality Control Reviewer review the draft report and supporting working papers and complete the Quality Control Checklist form.</td>
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<td>25. Forward draft to auditee and request responses within 30 working days.</td>
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<td>26. Incorporate auditee responses into the final audit report.</td>
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<td>27. Schedule and hold exit conference.</td>
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<td>28. Prepare Report Processing Checklist</td>
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<td>29. Send final report to reproduction and make one (1) unbound copy.</td>
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<td>30. Prepare Audit and Budget Advisory Committee Agenda Item.</td>
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<td>31. Upon acceptance by the Audit and Budget Advisory Committee prepare Board Agenda Item for Receipt and Filing.</td>
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</table>
PLANNING CHECKLIST FOR PERFORMANCE AUDITS

PLANNING FIELD WORK STANDARD: Work is to be adequately planned.

Procedures: To ensure audits are properly and adequately planned, the following checklist is to be completed by the Auditor-in-Charge and approved by the Assistant Chief Auditor at the end of the preliminary survey stage of the audit. Refer to Sections 6.01 through 6.52 of the Government Auditing Standards (2011 Revision).

Report Title/Number:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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</thead>
<tbody>
<tr>
<td>1. The audit's objectives, as well as the scope and methodology to achieve those objectives were defined (GAGAS 6.06 through 6.10).</td>
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<td>2. Methodology was designed to provide sufficient, competent and relevant evidence to achieve the objectives of the audit (GAGAS 6.10).</td>
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<td>3. Considered the significance of various programs and the needs of the potential users of the audit report (GAGAS 6.13 and 6.14).</td>
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<td>4. Obtained an understanding of the program to be audited (GAGAS 6.15).</td>
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<td>5. Designed methodology and procedures to detect significant violations of legal and regulatory requirements, contract provisions, or grant agreements (GAGAS 6.28 and 6.29)</td>
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<td>6. Discuss and assess the risks of fraud and abuse that is significant within The context of the audit objectives (GAGAS 6.30 and 6.34).</td>
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<td>7. Identified criteria needed to evaluate matters subject to audit (GAGAS 6.37).</td>
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<td>8. Identified potential sources of data that could be used as audit evidence (GAGAS 6.38 and 6.39).</td>
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<td>9. Considered whether the work of other auditors and experts may be used to satisfy some of the auditor's objectives (GAGAS 6.40 through 6.42).</td>
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<td>10. Assess professional qualification and independence of the specialist whose work may be used to satisfy some of the auditor's objectives (GAGAS 6.43 and 6.44).</td>
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</table>
11. Provided appropriate and sufficient staff and other resources to perform the audit (GAGAS 6.45).

12. If using the work of specialists, document the nature and scope of their involvement (GAGAS 6.46).

13. Communicated general information concerning the planning and performance of the audit to management officials responsible for the program being audited and others as applicable (GAGAS 6.47 through 6.49).

14. If audit is terminated before it is completed, consider whether and how to communicate the reason for terminating the audit with those charged with governance and the appropriate officials. (GAGAS 6.50).

15. Prepared an audit plan (GAGAS 6.51 and 6.52).

___________________________________________________  __________________
Auditor-in-Charge Date

___________________________________________________  __________________
Assistant Chief Auditor Date
Office of Management and Compliance Audits
Risk Assessment Worksheet

Audit Title: 

Date: 

<table>
<thead>
<tr>
<th>RISK</th>
<th>CONTROL</th>
<th>CONTROL IN PLACE? (YES/NO)</th>
<th>RISK ASSESSMENT</th>
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### SUMMARY OF POSSIBLE AUDIT FINDINGS

**AUDIT PERIOD:**

<table>
<thead>
<tr>
<th>TYPE OF DEFICIENCY</th>
<th>( ) FINANCIAL</th>
<th>( ) COMPLIANCE</th>
<th>( ) INTERNAL CONTROL</th>
<th>( ) OPERATIONAL</th>
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<th>CONDITION:</th>
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<th>CRITERIA OR LEGAL REFERENCE:</th>
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<th>AUDIT TRAIL:</th>
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<tr>
<th>EFFECTS ON AUDIT TESTING:</th>
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<tr>
<th>RESPONSE OR JUSTIFICATION:</th>
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<th>NAME/TITLE</th>
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<th>AUDITOR'S RECOMMENDATION:</th>
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<td>( ) COMMENT:</td>
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<tr>
<th>RECOMMENDATION OF AUDITOR-IN-CHARGE:</th>
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<tr>
<td>( ) COMMENT:</td>
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<td>( ) DISCUSS:</td>
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(NAME OF AUDIT/ENGAGEMENT)
QUALITY ASSURANCE WORK PAPER/REPORT SUPERVISORY REVIEW FORM
FOR THE 20XX-20XX FISCAL YEAR

AUDITOR’S NAME:

<table>
<thead>
<tr>
<th>Review/Coaching Notes</th>
<th>W/P Ref.</th>
<th>Auditor’s Response &amp; W/P Reference</th>
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Reviewer:  Auditor:  
Review Date:  Response Date:
QUALITY CONTROL GENERAL STANDARD: Each audit organization performing audits and/or attestation engagements in accordance with GAGAS standards should have an appropriate internal quality control system in place and undergo an external peer review.

Procedures: The Quality Assurance Reviewer will complete the Quality Control Checklist as soon as practical upon the auditor's completion and cross-referencing of the report to the working papers. Issues raised as a result of this review shall be discussed and resolved with the auditor. *Indicates items to be answered after issuance of audit report.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Yes</th>
<th>No</th>
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<tbody>
<tr>
<td><strong>GENERAL STANDARDS</strong></td>
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<tr>
<td>Competence (GAS 3.69-3.81)</td>
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<tr>
<td>1. Do working papers demonstrate that staff has adequate knowledge and skills?</td>
<td>☐</td>
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<td>Independence (GAS 3.02-3.26; 3.59)</td>
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<td>2. Did auditor demonstrate independence?</td>
<td>☐</td>
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<td>Professional Judgment (GAS 3.60-3.68)</td>
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<td>3. Were audit standards followed or disclosure made when standards did not apply or could be followed?</td>
<td>☐</td>
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<tr>
<td>Quality Control and Assurance (GAS 3.80-3.92)</td>
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<td>4. Does office have appropriate internal quality control system?</td>
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**FIELD WORK STANDARDS**

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<th>No</th>
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<tr>
<td>Planning (GAS 4.01-4.02; 5.01-5.03; 6.06-6.52)</td>
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<td>5. Was work planned adequately?</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Supervision (GAS 4.01; 5.01; 6.53-6.55)</td>
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<td>6. Was supervision of staff documented in working papers?</td>
<td>☐</td>
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<tr>
<td>Audit Documentation (GAS 4.15-4.16; 5.16-5.17; 6.79-6.85)</td>
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<tr>
<td>7. Was the audit documentation for findings sufficient to support the auditor’s judgments and conclusions?</td>
<td>☐</td>
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<tr>
<td>Evidence (GAS 4.01; 5.01; 6.56-6.72)</td>
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<td>8. Was sufficient, competent and relevant evidence obtained and do working papers contain objectives, scope and methodology?</td>
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</table>
REPORTING STANDARDS

Written Report (GAS 4.17; 5.18; 7.03-7.07)
9. Was a written audit report prepared?  

Report Contents (GAS 4.17-4.48; 5.18-5.67; 7.08-7.43)
10. Did the report include the following?
   a) Audit objectives and the audit scope and methodology? (GAS 7.09-7.13)
   b) Audit results including an opinion and any significant audit findings, conclusions and recommendations? (GAS 4.10-4.14; 5.11-5.15; 6.73-6.78; 7.14-7.31)
   c) Statement that the audit was made according to generally accepted government auditing standards? (GAS 4.18; 5.19; 5.51; 5.61; 7.30-7.31)
   d) The scope of work on internal control and any significant deficiencies found during the audit? (GAS 4.19-4.24; 5.20-5.23; 7.19-7.20)
   e) If applicable, the nature of any confidential information omitted? (GAS 4.40-4.44; 5.39-5.43; 7.39-7.43)
   f) Has appropriate corrective actions been taken to address previous findings and recommendations? (GAS 4.05; 5.06; 6.36)
   g) Were acts of fraud, illegal acts, violations of provisions of contracts or grant agreements or abuse reported to the appropriate parties? (GAS 4.25-4.27; 5.24-5.38; 5.49; 5.59; 7.21-7.26)

I have reviewed the working papers referenced above. All supervisory review notes have been cleared and the draft report is ready for transmittal to the auditee for response.

Quality Assurance Reviewer ________________________________ Date ________________

ITEMS TO BE COMPLETED AFTER REPORT ISSUANCE

*Report Contents (GAS 4.33-4.39; 7.32-7.38)
1. The views of responsible officials concerning auditor's findings, conclusions and recommendations; as well as planned corrective actions?  

*Timely Issuance (GAS 4.48; 5.47; 6.78)
2. Was report issued in a timely manner or was interim reporting used?  

*Report Distribution (GAS 4.45; 5.44; 5.52; 5.62; 7.44)
3. Was the report submitted to appropriate officials and made available to the public?  

Quality Assurance Reviewer ________________________________ Date ________________
REPORT PROCESSING CHECKLIST

<table>
<thead>
<tr>
<th>Report Name:</th>
<th>Date</th>
<th>Initials of Responsible Staff Member</th>
</tr>
</thead>
<tbody>
<tr>
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<td></td>
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</tbody>
</table>

- Report has been cross-referenced (including all figures, charts, salient statements and exhibits) to working papers:
  - [ ] complete
  - [ ] in progress

- Working papers are adequate, initialed, and dated:
  - [ ] complete
  - [ ] in progress

- All coaching note have been addressed and cleared:
  - [ ] complete
  - [ ] in progress

- All referencing of statutes and other reports, etc., have been confirmed by QA.
  - [ ] complete
  - [ ] in progress

- All numerical schedules appearing in the report have been verified and all columns and rows that should cross-foot, do.
  - [ ] complete
  - [ ] in progress

- The report has been proofread and corrected as necessary.
  - [ ] complete
  - [ ] in progress

- Draft Only
  - [ ] The responses to this report are due on:
    - Date:

- The Assistant Chief Auditor has reviewed the report format

- Does the report comply with GAO standards for reporting?
  - [ ] yes
  - [ ] no
  - [ ] N/A

- Has the report been copied to the T drive?
  - [ ] complete
  - [ ] in progress

- Has Web Administrator posted the report to the Web page?
  - [ ] yes
  - [ ] in progress

BEFORE A TRANSMITTAL LETTER IS SIGNED AND BEFORE THE REPORT IS GIVEN IN FOR REPRODUCTION, THIS CHECKLIST MUST BE INITIALED AND SIGNED.

______________________________  ________________________
Assistant Chief Auditor          Date
Faraway County Public Schools  
Office of Management & Compliance Audits  
ASSESSMENT CHECKLIST FOR NONAUDIT SERVICES

**INDEPENDENCE GENERAL STANDARD**: In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free, both in fact and appearance from personal, external, and organizational impairments to independence.

The independence general standard holds an audit organization that provides other professional services (nonaudit services) to consider whether providing these services creates a personal impairment either in fact or appearance that adversely affects their independence for performing audits. – GAGAS 3.02 through 3.12, 3.16 through 3.24, 3.36, and 3.49 through 3.58

**Procedures**: To ensure that other professional services (nonaudit services) provided at the request of management do not create personal impairments either in fact or appearance that adversely affect our independence for performing audits and to document our consideration, the following checklist is to be completed by the Auditor-in-Charge and approved by Chief Auditor or Assistant Chief Auditor. – GAGAS 3.33 through 3.58

**Report or Activity Title/Number**: _______________________________________________________

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
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<tbody>
<tr>
<td><strong>Definition of Services</strong></td>
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</table>
| 1. Does the service requested by management meet the definition of nonaudit services (i.e., professional services other than an audit or attestation)? – GAGAS 2.12  
   *(If “No”, complete Auditor Assignment & Independence Statement and follow the Standards. If “yes”, go to Question 2.)* | ☐ | ☐ | ☐ |

<table>
<thead>
<tr>
<th>Applicable Procedures</th>
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</table>
| 2. Is the requested nonaudit service specifically prohibited by GAGAS 3.36 or 3.49 – 3.58?  
   *(If “Yes”, decline the request and do not perform the service. If “No”, go to Question 3.)*  
   – See Appendix II, GAGAS Conceptual Framework for Independence | ☐ | ☐ | ☐ |
| 3. Is the nonaudit service considered a routine activity? – GAGAS 3.40 – 3.41  
   *(If “Yes”, additional safeguards are not necessary. Document the auditor’s consideration the first time only. If “No”, go to Question 4.)* | ☐ | ☐ | ☐ |
| 4. Does performing the nonaudit service present any potential impairment to independence (e.g., (1) performing management functions or making management decisions or (2) auditing our own work or providing services that are significant/material to the subject matter of audits) that applying safeguards cannot eliminate or reduce to an acceptable level? – GAGAS to 3.34 through 3.38 and 3.42 *(If “yes”, do not perform the nonaudit service or if we cannot decline the engagement, consult with the Audit & Budget Advisory Committee at the first available opportunity and report impairment of independence in subsequent audits. If “no”, go to question 5.)* | ☐ | ☐ | ☐ |
| 5. Has the auditor given consideration to obtain assurance from management regarding the following: (1) that they assume all management responsibilities; (2) will oversee the service, | ☐ | ☐ | ☐ |
by designating an individual who possesses suitable skill, knowledge or expertise; (3) will evaluate the adequacy and results of the services performed; and (4) will accept responsibility for the results of the services? – *GAGAS 3.38* (If “No”, prepare documentation giving evidence of such consideration. If “Yes”, go to Question 6.)

6. Is management unable or unwilling to assume the responsibilities delineated in Question #5 above? – *GAGAS 3.38* (If “Yes”, decline the request and do not perform the service. If “No”, go to Question 7.)

7. Document the following to ensure the auditor’s understanding with management or those Charged with governance regarding the services to be provided: (1) the objectives of the nonaudit service; (2) services to be performed; (3) audited entity’s/management’s acceptance of its responsibilities; (4) the auditor’s responsibilities; and (5) any limitations on the nonaudit service. – *GAGAS 3.39*

8. Auditor’s comments and notes:

__________________________________  __________________
Auditor-in-Charge Date

__________________________________  __________________
Chief Auditor or Assistant Chief Auditor Date