Internal Auditing

Description

Internal auditing is an independent appraisal activity employed within the district as a service to administration. It is a management control which functions by examining and evaluating the adequacy and effectiveness of other internal controls. Internal auditing is dedicated to assisting district administration in the effective discharge of its responsibilities. To this end, it furnishes them with analyses, appraisals, counsel, recommendations and information concerning the activities reviewed. The audit objective includes promoting effective control at a reasonable cost.

Internal auditing functions under policies and regulations adopted and approved by the board of directors. The internal auditor reports to the superintendent and takes direction from the Citizens’ Finance and Audit Committee, and coordinates activities with the state and other outside auditors. Internal auditing is a staff function with no authority over persons and activities. The independence from operating responsibility promotes objectivity. To conduct audits, the internal auditor is authorized free access to district records, personnel and physical properties relevant to the subject being reviewed, without relieving other administrations of their management control responsibilities.

Mission

The mission of internal auditing is as follows:

1. Review departments and programs within the district at appropriate intervals to determine whether they are efficiently and effectively carrying out their functions of planning, organizing, directing, and controlling in accordance with management instructions, policies and procedures, and in a manner that is consistent with both district objectives and high standards of administrative practice;
2. Determine the adequacy and effectiveness of the district’s systems of internal accounting and operating controls;
3. Review the reliability and integrity of financial information and the means used to identify, measure and classify all reports of such information;
4. Review the established systems to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determine whether the organization is in compliance. Suggest policy where required.
5. Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
6. Appraise the economy and efficiency with which resources are employed, identify opportunities to improve operating performances, and recommend solutions to problems where appropriate.
7. Review operations and programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

8. Coordinate audit efforts with those of the state auditor and other independent public accountants.

9. Participate in the planning, design, development, implementation, and operation of major computer-based systems to determine whether

   a. adequate controls are incorporated in the systems;
   b. thorough system testing is performed at appropriate stages;
   c. system documentation is complete and accurate; and
   d. the needs of user organizations are met, conduct periodic audits of computer service centers and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.

10. Review compliance with the district’s guidelines for ethical business conduct and see that the highest standards of performance are met.

11. Submit annual audit plans to the superintendent, cabinet, and Citizens’ Finance and Audit Committee for their review and approval.

12. Provide a report, quarterly, to the Citizens’ Finance and Audit Committee on whether:

   a. Appropriate action has been taken on significant audit findings;
   b. Audit activities have been directed toward the highest exposures to risk and toward increasing efficiency, economy, and effectiveness of operations;
   c. Internal and external audits are coordinated so as to avoid duplications;
   d. Internal audit plans are adequate;
   e. There is any unwarranted restriction on the staffing and authority of internal auditing or on access by internal auditors to all company activities, records, property, and personnel.

13. Report to the board and to those members of management who should be informed, or who should take corrective action, the results of audit examinations, the audit opinions formed, and the recommendations made.

14. Evaluate any plans or actions taken to correct reported conditions for satisfactory disposition of audit findings. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.

15. Provide adequate follow up to make sure that adequate corrective action is taken and that it is effective.

Administrators are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from receipt of a report disclosing those weaknesses. The administrator is also responsible for seeing that a written report of action planned or completed is sent to the division head. If a plan of action is reported, a second report shall be made promptly upon completion of the plan.
Standards

Internal auditing follows the standards for the professional practices of internal auditing as established by The Institute of Internal Auditors. The standards include:

1. Independence;
2. Professional proficiency;
3. Scope of work;
4. Performance of audit work; and
5. Management of the internal auditing department.

Quality Assurance

On a periodic basis, the function of internal auditing should be reviewed by an independent team determined by the Citizens’ Finance and Audit Committee. The intent of the review is to ensure that the internal audit function is performing as planned and is conducting audits objectively and independently.

The quality assurance review will consider:

1. Objectives of internal audit: Review objectives of internal audit as noted in the internal auditor job description. Evaluate objectives in relation to overall district goals.
2. Quality assurance: Review quality of work as it relates to the Standards for the Professional Practice of Internal Auditing and the Internal Audit Procedures Manual. Critique audit planning, conduct of audit, support of findings (work papers), communication of results reports, and follow up on recommendations.
3. Long term internal audit plans: Review the long range plan of internal audit as it relates to district goals, determine the adequacy of the level of exposure, extent of coverage, achievement of independence, effective use of internal audit time, working with state examiners towards common goals, requirements for staffing, etc.

Request for Internal Audit Services

In keeping with the requirements of the policy and generally accepted professional standards, the internal auditor has established the capability for conducting audits of departments and programs in the following areas:

1. Financial—to determine:
   a. whether financial operations are conducted properly; and
   b. whether the financial reports are presented fairly.
2. Compliance—to determine whether operations have been carried out in compliance with applicable laws, regulations and established policies.
3. Economy and efficiency—to determine whether allocated resources are managed and used in an economical and efficient manner.

Audits can be performed by district staff covering any one of the above areas, or a comprehensive audit encompassing all of them can be undertaken.

In general, a financial audit will be limited to the financial and compliance areas. It will however, often address problems of economy, efficiency and effectiveness insofar as these apply to the system of internal controls used in financial operations.

In addition to regularly scheduled internal audits, time is reserved for special requests for audits from the board or administration.

The internal auditor also identifies potential audit subjects. Some criteria used in making selections might be helpful to requestors in developing ideas or requests for audits. They are:

1. **Relative risk and exposure**: Departments and programs under this jurisdiction that expend relatively large sums of money and are responsible for the management of significant amounts of human and capital resources, or are responsible for the receipt of large amounts of revenue, are considered high-priority candidates for audit. There normally is great potential for identifying improvements in management, organizational structure and operating procedures to enhance the economy, efficiency and effectiveness of such organizations. Conversely, there is greater risk of harmful effects if any existing weaknesses remain unidentified.

2. **Assessments of recent audits or management studies**: Programs with a history of management problems as identified through prior audits and studies should be prime candidates for follow-up audits to determine whether identified weaknesses have been corrected.

3. **Availability of program information**: A department that provides little program information and has been recently audited should be considered a prime candidate. This is particularly true of new or experimental programs. Audits will provide management and board with an attestation to the propriety, validity and reliability of data upon which future program decisions can be based.

4. **Suspected problems or adverse publicity**: Programs with a history of controversy concerning their compliance, economy and efficiency should be audited to provide objective attestation to management’s response to such controversy. In addition, large budget increases, a large reduction or increase in the size or demands of the client populations or a rapid employee turnover rate are valid indicators that an audit may be needed.

Additionally, staff will be reviewing areas legally requiring audits to be performed on a periodic basis.

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