



Audit Manual

Conducting Performance Audits
In Accordance with the Yellow Book

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CITY AUDITOR
City of Beverly Hills

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Section 1

Introduction and Overview

The City Auditor examines and evaluates city activities to assist the City Council to effectively discharge their duties. The auditor provides independent, objective, professional analysis and reporting to the City Council. Specifically, the auditor identifies and proposes audit topics, conducts audit planning and fieldwork, and reports the results of performance audits completed under *Government Auditing Standards* and in accordance with the laws of the City of Beverly Hills. The City Auditor's work is guided by ethical principles of the public interest; integrity; objectivity; proper use of information, resources, and position; and professional behavior.

This performance audit policies and procedures manual serves as a reference and guide for audits; helps ensure that work is of high quality and complies with audit standards; and helps explain the work to interested parties. This manual describes the audit function, and documents how the Office of the City Auditor meets and complies with generally accepted government auditing standards (GAGAS) as set forth in the *Government Auditing Standards, July 2018 Revision*, commonly referred to as the *Yellow Book*, issued by the U.S. Government Accountability Office. The Audit Manual references GAGAS, and helps Office of the City Auditor staff plan, organize, and conduct performance audits, and informs staff how to develop and report audit findings in accordance with *Government Auditing Standards*.

The Beverly Hills Office of the City Auditor Audit Manual is comprised of the following sections:

Section 1	Introduction and Overview
Section 2	Audit Standards—General Standards
Section 3	Field Work Standards for Performance Audits
Section 4	Audit Process—Planning to Fieldwork
Section 5	Reporting Audit Results
Section 6	Audit Work Plan, Recommendations, and Communications
Section 7	Attestation Engagements
Section 8	Trust & Innovation Portal

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

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

Office of the City Auditor Authority

The Office of the City Auditor is an independent office that reports to and is accountable to the City Council. Under Beverly Hills Municipal Code Title 2—Administration, Personnel, and Procedures, Chapter 3, Article 13 Office of the City Auditor:

The City Auditor shall have authority to conduct financial and performance audits of all departments, offices, boards, commissions, activities, and programs of the City in order to determine both independently and objectively whether:

1. Programs and activities have been appropriately authorized and are being conducted and funds expended in compliance with applicable laws;
2. The department and/or staff are acquiring, managing, protecting and using resources, including public funds, personnel, property, equipment, and space economically, efficiently, equitably, and effectively and in a manner consistent with the objectives intended by this Code, State law or applicable Federal law or regulation;
3. The City, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices;
4. The desired result or benefits are being achieved;
5. Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of, revenues and other resources;
6. Management has established adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls; and
7. There exist indications of fraud, abuse or illegal acts which require further investigation. (Ord. 17-O-2736, eff. 10-6-2017)

The City Auditor will conduct performance audits of City departments, offices, and agencies in accordance with government auditing standards. The audits may assess internal controls over financial reporting and evaluate how well the City complies with all applicable laws, rules and regulations; achieves stated goals and objectives; reports financial and performance information (reliability); efficiently and effectively uses resources; and safeguards and protects assets.

Mission

The Department's mission is to:

To advance accountable, efficient, and effective government through independent and objective audits that ensure the community receives the highest quality services, and ensure that public funds are expended in a transparent, and appropriate manner.

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

Office of the City Auditor Policy on Performance Audits

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

Auditor Review of Audit Manual

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

Office of the City Auditor Policy on Audit Manual

Each auditor shall complete a written form indicated that they have received a copy (of access), read, and understand the office Audit Manual. See page 6 for a copy of the acknowledgement form.

Ethical Principles in Government Auditing

The July 2018 Revision to Government Auditing Standards emphasizes ethical principles as the foundation, discipline, and structure behind the implementation of the standards, including establishing five key ethical principles that guide the work of those conducting audits in accordance with the standards. Government Auditing Standards Section 3.03 establishes the following:

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

The City Auditor will adhere to and follow the five key ethical principles: Public interest; integrity; objectivity; proper use of government information, resources, and position; and professional behavior. On an annual basis, the City Auditor will attest in writing that they will adhere to and follow the identified principles. In the event, the City Auditor cannot comply with or adhere to the identified principles, they should immediately notify their appointing authority of the circumstances involving the ethical principles. See Annual Ethical Principle Statement on page 7.



Title: Certifying Receipt and Understanding of the Audit Manual

Source: Office of City Auditor Audit Handbook

Purpose: To document auditor's receipt, reading, and understanding of the material provided in the Audit Handbook and Administrative Policies and Procedures

I, _____, certify that I have been provided access to the Office of the City Auditor's Audit Manual, August 2019. These documents provide the official and approved policies and procedures for conducting audits in accordance to Government Auditing Standards (Standards) and for administrative activities. I recognize that I am required to follow the approved practices in the Audit Manual.

I certify that I have read the Audit Manual and understand the requirements that must be followed. Where I have any questions, I recognize that it is my obligation to obtain clarification from audit management.

Auditor's Signature

Print Name-Auditor



Annual Ethical Principle Statement

Office of the City Auditor

City of Beverly Hills

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

Public Interest

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

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

Integrity

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

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

Objectivity

The credibility of auditing in the government sector is based on auditors' objectivity in discharging their professional responsibilities. Objectivity includes being independent in fact and appearance when providing audit and attestation engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest. Avoiding conflicts that may, in fact or appearance, impair auditors' objectivity in performing the audit or attestation engagement is essential to retaining credibility. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors' responsibility to the public.

Proper Use of Government Information, Resources, and Position

Government information, resources, and positions are to be used for official purposes and not inappropriately for the auditor’s personal gain or in a manner contrary to law or detrimental to the legitimate interests of the audited entity or the audit organization. This concept includes the proper handling of sensitive or classified information or resources.

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

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

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

Professional Behavior

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

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

Employee: _____ Date: _____

City Auditor: _____ Date: _____

Section 2

Audit Standards—General Standards

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

[The 2018 revision of Government Auditing Standards is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Early implementation is not permitted.]

This section documents the four general standards and provides guidance for performing financial audits, attestation engagements, and performance audits. These general standards deal with:

1. Independence
2. Professional Judgment
3. Competence
4. Quality Control and Assurance

Specifically, the general standards encompass the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff, including the need for their continuing professional education; and the existence of quality control systems and external peer reviews. Section 3 also documents the Office of the City Auditor policies and procedures for complying with the four general standards. The fieldwork and reporting standards and applicable policies are covered in Section 3 and Section 5.

¹ The July 2018 revision of Government Auditing Standards supersedes the July 2011 revision.

Government Auditing Standards--Performance Audits		
General Standards	Fieldwork Standards	Reporting Standards
Audit Manual Section 2	Audit Manual Section 3	Audit Manual Section 5
Independence	Reasonable Assurance	Form
Professional Judgment	Significance	Report Contents
Competence	Audit Risk	Report Quality Elements
Quality Control and Assurance	Planning	Report Issuance and Distribution

1. Independence

In all matters relating to audit work, the Office of the City Auditor and individual auditors must be independent². Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work³. Auditors should be independent from an audited entity during any period of time that falls within the period covered by the subject matter of the audit, and the period of the professional engagement⁴.

Practical Consideration of Independence

Four interrelated sections define GAGAS's practical considerations.⁵ These include

- 1) Use of a conceptual framework for making independence determinations;
- 2) Specific requirements for audit organizations located within entities they audit;
- 3) Requirements and guidance for nonaudit services; and
- 4) Documentation requirements to support adequate consideration of auditor independence.

² GAS 3.18

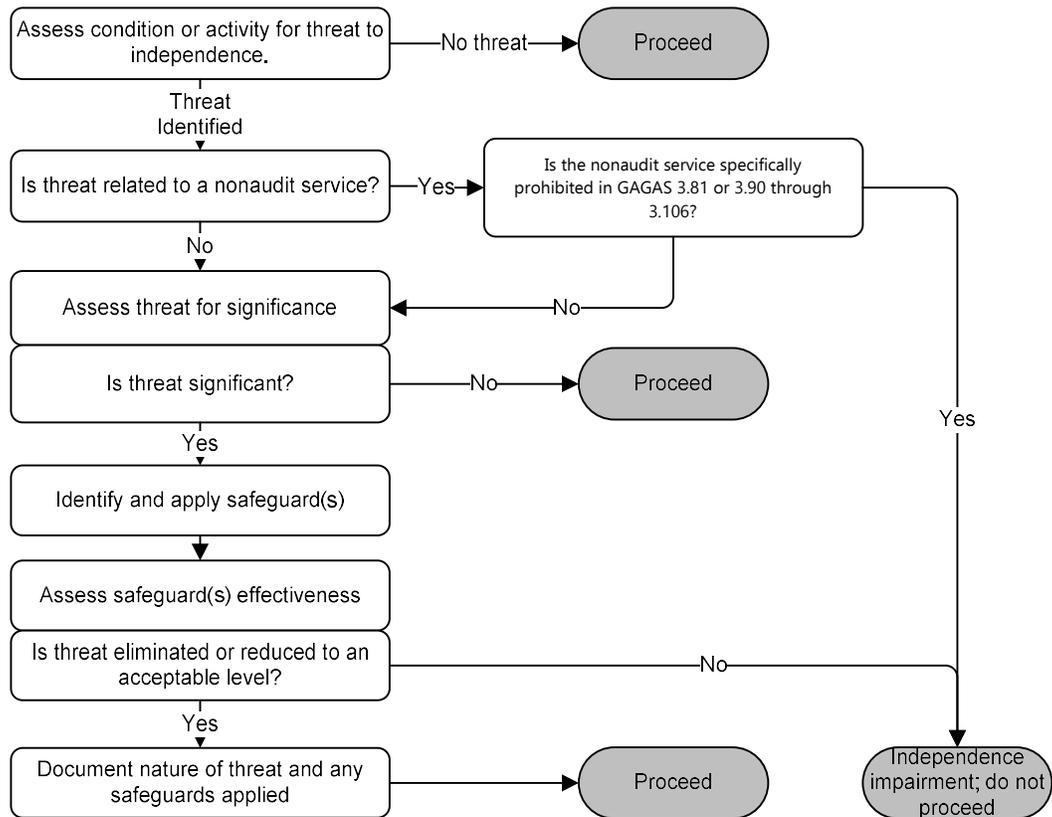
³ GAS 3.19

⁴ GAS 3.20.a-3.20.b

⁵ GAS 3.17.a-3.17.d

Use of a Conceptual Framework for Making Independence Determinations

GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to: 1) identify threats to independence; 2) evaluate the significant of the threats; and 3) apply safeguards as necessary⁶. If appropriate safeguards do not eliminate or reduce a threat to an acceptable level, independence should be considered impaired⁷. The follow graphic displays the conceptual framework.



⁶ GAS 3.27.a-3.27.c.

⁷ GAS 3.59

Office of the City Auditor Policy on Independence Standards

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

Should an actual or perceived personal or external impairment arise during the course of an assignment or after an audit report is issued, the auditor is responsible for advising the City Auditor immediately. If a threat to independence is initially identified after the auditors' report is issued, the City Auditor will evaluate the threat's impact on the audit and on GAGAS compliance. If the City Auditor determines that the newly identified threat had an effect on the engagement that would have resulted in the auditors' report being different from the report issued had the auditors been aware of it, the steps outlined in GAGAS Section 3.34 will be implemented. External impairments that cannot be resolved by the City Auditor will be reported to the City Council for action.

Office of the City Auditor Policy on Nonaudit Services

In accordance with GAS 3.72j (1)(2)(3), the Office of the City Auditor performs three types of nonaudit services: 1) investigations of alleged fraud, violations of contract provisions or grant agreements, or abuse; 2) periodic audit recommendation follow-up engagements and reports; and 3) identifying best practices of leading practices for use in advancing the practices of government organizations. Section 8 of this document discusses how the Office will handle fraud-related investigations and researching best practices.

In general, in compliance with GAS 3.107, the Office of the City Auditor will only document threats to independence when performing the above mentioned nonaudit services, and consideration of applicable safeguards and management's ability to effectively oversee a nonaudit service.

If other nonaudit services are provided that are different than those discussed above, the City Auditor Office will document the auditor's understanding with an audited entity for which the auditor will provide a nonaudit service as indicated in paragraph 3.77: objectives of the nonaudit service, services to be provided, audited entity's acceptance of its responsibilities as discussed in paragraph 3.76, and any limitations on the provision of nonaudit services; and document the evaluation of the significance of the threats created by providing any of the services discussed in paragraph 3.89 (preparing accounting records and financial statements).

2. Professional Judgment

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

Office of the City Auditor Policy on Professional Judgment

The Audit Manual includes procedures for conducting audit planning, risk assessment, and audit fieldwork, as well as procedures for preparing workpapers and report writing. Evidence that the professional judgment standard was met should include completed and approved audit programs for audit planning, field work, and report writing. If any of the audit phases are not performed, a written justification for not doing so should be included in the workpapers. Also, included should be a signed ethical principle statement form documenting awareness of required behavior. For each audit done in accordance with GAGAS, auditors should complete an Audit Standards Plan. The Audit Standards Plan includes procedures to ensure that internal procedures and GAGAS are followed. See Attachment 1 for the Audit Standards Plan, which is saved as a separate document, Audit Standards Plan.

3. Competence

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

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

- Analyze City programs, departments, budgets, and complex processes to identify areas of efficiency and effectiveness.
- Identify areas of risk and evaluate internal controls over financial reporting.

- Develop and execute audit programs to identify and document areas for improvement.
- Assist in audit planning, conduct field work, and document audit steps and working papers.
- Use specialized data analysis techniques and approaches to analyze agency performance.
- Apply knowledge of budgeting, public administration, and generally accepted governmental auditing standards.
- Develop and communicate audit findings to staff, including identifying recommendations to address audit issues.
- Negotiate and assist in the resolution of audit issues.
- Investigate complaints and research suggestions made into the Trust & Innovation Portal (TIP).
- Write reports to the Beverly Hills City Council identifying audit findings and recommendations.
- Maintain a professional rapport with management and verify if recommendations are implemented.

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

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

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

Office of the City Auditor Training Policy and Guidelines

Audit staff required to comply with GAGAS continuing professional education requirements. The current two-year training cycle will commence on July 1, 2019. Management is also required to conduct annual employee evaluations to facilitate continuous development of employee knowledge, skills, and abilities to conduct audit engagements.

4. Quality Control and Assurance

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

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

The audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. Quality assurance involves reviewing the audit work to ensure that the evidence provides a reasonable basis for the findings and conclusions, that the report communicates the results of the audit work, and that the project complies with *Government Auditing Standards*.

The audit process is designed to ensure quality throughout the process. Key quality controls include: the policies and procedures manual based on *Government Auditing Standards*, audit work programs and plans, report referencing, and reviews and discussions with management.

Before releasing a report, the City Auditor cross references the draft report to the audit working papers. In addition to referencing report text to specific work papers, text can be referenced as a statement, conclusion, recommendation, or summary. Conclusions refer to text that derives logically from other text in the report.

Referencing helps ensure the City Auditor has sufficient and appropriate evidence in support of the findings and conclusions. While referencing, the auditor considers:

- Are the facts correct and adequately documented?
- Do the work papers provide sufficient, competent, and relevant evidence to support the conclusions?

The City Auditor will provide a draft report to the City Attorney for review to identify any legal issues and provide any other feedback.

For each audit, the City Auditor completes an audit standards checklist to help assure and monitor quality. The checklist is based on the Association of Local Government Auditors engagement checklist. Completing the checklist allows the auditor to monitor audit quality, identify any systematic issues related to *Government Auditing Standards* or audit policies and procedures, and document recommendations to correct any problems. The completed checklist and referenced draft document the auditor's overall determination that evidence are sufficient and appropriate to provide a reasonable basis for the findings and conclusions. Based on this conclusion, the auditor adds appropriate language to the report noting that conclusion. The auditor files the checklist with the audit work paper.

At the end of each year, the City Auditor reviews checklists completed during the year to identify issues that need correction. The auditor may make changes to policies and procedures to address issues found during the annual review. The auditor maintains documentation of the annual review.

If a report has been released and the City Auditor discovers that the evidence to support the findings or conclusions was not sufficient, then the auditor will inform the City Council and City Manager of the problem. The auditor would remove the report from the city's web page and replace it with a document explaining why the report was removed.

The City Auditor arranges for a peer review every three years. If the peer review is not conducted within the three-year period, then the auditor will note the lack of a peer review in the statement of compliance with *Government Auditing Standards* in each report. The auditor will provide the City Council with the peer review report and will post the peer review report on the City web page.

Office of the City Auditor Policy on Quality Control

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

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

Peer Review Program

The Office of the City Auditor was established by ordinance effective October 6, 2017. The first City Auditor commenced work on October 1, 2018. Since no audit work has commenced or been completed, the Office has not undergone a peer review. It is expected that the City Auditor's first peer review will be conducted after July, 1 2022. The first peer review will cover audits completed through June 2021. Subsequent peer reviews will be conducted every three years thereafter.

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

Office of the City Auditor Policy on Peer Review

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

Audit Standards Review

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

Procedure

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

Section 3

Field Work Standards for Performance Audits— Reasonable Assurance, Significance, Audit Risk, and Planning

This section documents the auditing standards for performance audits related to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of reasonable assurance, significance, and audit risk form a framework for applying these standards and are included throughout the discussion of performance audits.

Reasonable Assurance

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

Significance in Performance Audits

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

Audit Risk

Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. The assessment of audit risk involves both qualitative and quantitative considerations. Factors such as the time frames, complexity, or sensitivity of the work; size of the program in terms of dollar amounts and number of citizens served; adequacy of the audited entity's systems and processes to detect inconsistencies, significant errors, or fraud; and auditors' access to records, also impact audit risk. Audit risk includes the risk that auditors will not detect a mistake, inconsistency, significant error, or fraud in the evidence supporting the audit. Audit risk can be

reduced by taking actions such as increasing the scope of work; adding experts, additional reviewers, and other resources to the audit team; changing the methodology to obtain additional evidence, higher quality evidence, or alternative forms of corroborating evidence; or aligning the findings and conclusions to reflect the evidence obtained.

Office of the City Auditor Policy on Audit Risk

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

Planning

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

Audit objectives: The objectives are what the audit is intended to accomplish. They identify the audit subject matter and performance aspects to be included, and may also include the potential findings and reporting elements that the auditors expect to develop. Audit objectives can be considered questions that auditors try to answer based on evidence obtained and assessed against criteria.

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

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

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

- a. The nature and profile of the programs and the needs of potential users of the audit report;
- b. Internal control as it relates to the specific objectives and scope of the audit;

- c. Information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;
- d. Legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that are significant within the context of the audit objectives; and
- e. The results of previous audits and attestation engagements that directly relate to the current audit objectives.

During planning, auditors also should:

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

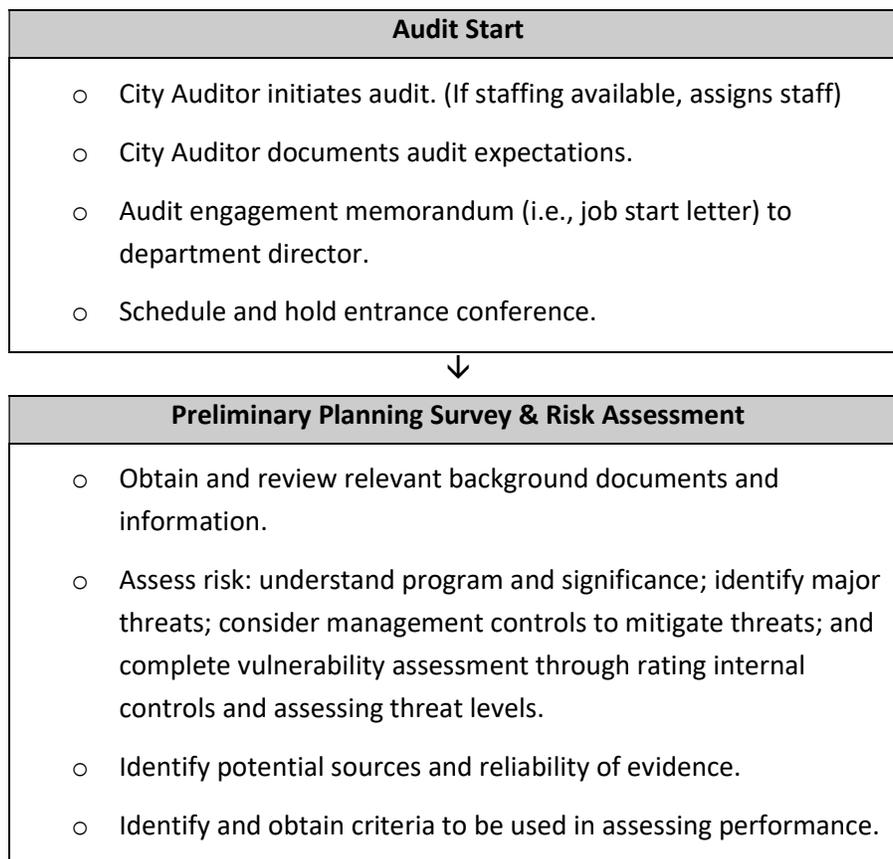
Section 4

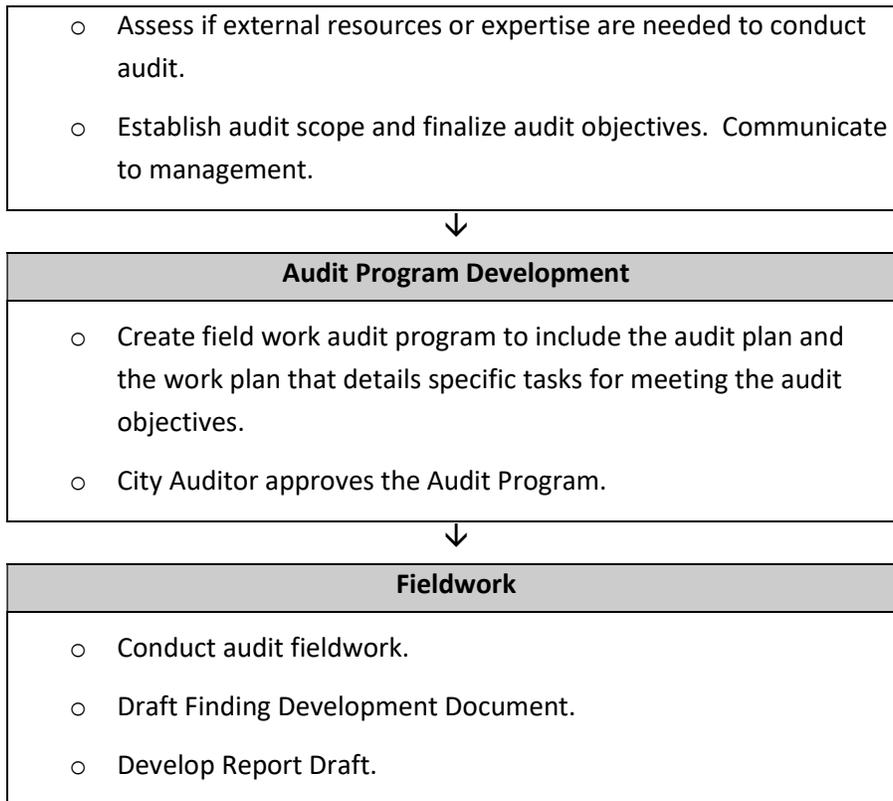
Audit Process: Audit Planning To Fieldwork

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

Audit Planning Process

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





PROJECT START
Project assignment

Project initiation is documented on a project assignment form shown on page 30. The City Auditor will assign staff to initiate and conduct all audits. City Auditor staff will document key project issues, their significance to potential users of the audit report, the contribution the office can make, and the availability of data and resources, and whether a consultant is required for the project. The audit program identifies the required audit steps that must be performed.

Audit Engagement Memorandum (Job Start Letter)

The City Auditor team will draft the audit Job Start Memorandum to inform the department of the audit request, list required documentation, and request or confirm a meeting with the department director. See example of Job Start Memorandum on page 31.

Entrance Conference

Once the job start letter has been sent to the auditee, the City Auditor will schedule an Entrance Conference to meet with the agency head and key staff. At the Entrance Conference, the City Auditor will: (1) explain the audit objective, scope, methodology, general process and timetable for the audit work, including the agency’s deadlines to respond to preliminary findings and to the preliminary draft; (2) pass out the audit protocol document (see page 32); (3) if applicable, request work space for duration of the audit; (4) solicit the views and any concerns of the department director on the project; and (5) since government auditing standards requires that we gain an understanding and assess the significance and impact of any ongoing investigations and legal proceedings within the context of the audit objectives, during the Entrance Conference meeting, the City Auditor will inquire about any ongoing investigations or legal proceedings that must be considered during audit planning. The City

Auditor will document the meeting, including a list of meeting attendees. If the audit is terminated before it is completed and no audit report is issued, the City Auditor will document the results of their work to date and why it was terminated.

PRELIMINARY SURVEY—Audit Planning and Risk Assessment
Obtain and Review Relevant Background Information

Once an Entrance Conference has been held, the City Auditor obtains and reviews relevant information related to the audit request. This may include obtaining information regarding the auditee’s mission, goals and objectives, organizational structure, policies and procedures, processes, resources, outputs, and outcomes. The auditor’s goal is to understand the program to be audited and to finalize the audit objectives. To accomplish these tasks, the auditor(s) should undertake a preliminary audit program to do the following:

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

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

Risk Assessment

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

Purpose

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

To develop audit procedures to see if the controls or procedures the City has in place to prevent, eliminate, or minimize identified threats are working; determine if additional audit procedures are necessary to document threats actually occurring. The rationale for conducting a risk assessment is that the auditor(s) can limit testing and focus on those areas most vulnerable to noncompliance and abuse. This produces a more cost-effective and timely audit. In conducting a risk assessment, the auditor:

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

The extent of audit testing is directly related to an assessment of the activity's degree of vulnerability. The higher the vulnerability, the more extensive the audit testing needs to be and vice versa. Thus, even though an activity may have a high degree of inherent risk, a strong system of internal controls can reduce the entity's exposure to a low or moderate level. Accordingly, the need to conduct detailed audit tests could be reduced to an appropriate level. The risk assessment work should be documented in the audit working papers. This assessment should serve as the foundation for developing the detailed audit steps and tests to be performed in the Audit Program. The risk assessment should be documented in a completed risk matrix and relevant to the audit objectives. The auditor(s) must perform the following steps.

Risk Assessment Audit Steps

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

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

Threat Inherent Risk and Internal Control Rating Guide

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

Vulnerability Assessment and Testing Extent

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

Example of Risk Matrix and Vulnerability Assessment

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

AUDIT PROGRAM DEVELOPMENT

Field Work Audit Program

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

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

The Audit Program guides audit staff through the steps necessary to complete audit fieldwork. In fieldwork, the auditor(s) obtain and analyze program data and information to determine if the identified controls are working as intended. This is accomplished by completing the audit steps identified in the Audit Program. Audit steps may include interviewing officials, reviewing documents (e.g. internal memoranda, correspondence, reports, minutes, and contracts), and gathering statistical

data through database searches, analysis of secondary data sources, and surveys. The audit field work objective is to develop audit findings.

Variations of Audit Programs

In certain instances, the need may arise to make modifications to the Audit Program to address expanded audit scope or to address new audit issues. The City Auditor will self-approve any significant departures from the Audit Program. Minor changes such as extensions of internal deadlines do not require formal approval by the City Auditor.

Situations that may require expanding audit procedures include when there are indications that fraud or abuse significant to the audit objectives may have occurred. Extension of audit procedures should be documented in the working papers and audit program. If the potential fraud is not significant to the audit objectives, the auditor(s) may conduct additional work as a separate engagement or refer the matter to other parties with oversight responsibility. In fraud-related situations, our policy will be not to interfere with legal proceedings or investigations.

Developing Preliminary Findings

Audit findings must contain condition, criteria, cause, effect, and recommendations. However, the elements needed for a finding depend entirely on the objectives of the audit. A finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the finding's elements.



**Office of the City Auditor
Project Assignment Form**

Assignment Title:

Audit Type: Performance Financial Other

Workplan: FY

Source: Citywide Risk Assessment / Audit Plan
Required
Requested by
(Attach documentation of Audit Committee approval)

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

Has the City Auditor's Office:

- a. performed any management functions or made any management decisions relative to the auditee? Yes No
- b. provided non-audit services that are significant or material to the subject matter of the audit? Yes No

**Estimated Completion
Date:**

Estimated Hours:

Special instructions:

By signing below, I attest that I possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. Further, I have self-reviewed my signed Annual Independence Statement and confirm that no known impairments exist. 30

Approved: _____
Eduardo Luna

**City
Auditor**



Example of Audit Engagement Memorandum

TO:

FROM: Eduardo Luna, City Auditor

DATE:

SUBJECT: Planned Audit of XXX

In accordance with City Council direction, the City Auditor is initiating an audit of the _____ of the _____ Department.

In order to commence the audit, I would like to schedule an entrance meeting to discuss the audit objectives, audit process, time frames, data needs, and to introduce members of the audit team. A member of my staff will contact you to arrange this meeting with members of your department.

Accordingly, please provide us with the following preliminary information about _____: [Can be modified based on audit scope]

- An organization chart and listing of key program personnel;
- Background information and a history of the program;
- A copy of the program's written procedures;
- Management reports, financial reports, and budget information on the program for the past three years;
- Any additional information you believe may be relevant to us in learning about your program.

I plan to conduct this audit in accordance with generally accepted government auditing standards. Prior to issuing any audit report, you will have the opportunity to review the report and provide a written response to the audit for inclusion in the final audit report.

Also, government auditing standards requires that we gain an understanding and assess the significance and impact of any ongoing investigations and legal proceedings within the context of the audit objectives. During the entrance conference meeting, please inform us of any ongoing investigations or legal proceedings.

If you have questions or need additional information, please do not hesitate to contact either me on extension 6865. Your cooperation is greatly appreciated.

cc: City Manager, City of Beverly Hills
Assistant City Manager, City of Beverly Hills



Office of the City Auditor Audit Protocols

Our Mission

To advance accountable, efficient, and effective government through independent and objective audits that ensure the community receives the highest quality services, and ensure that public funds are expended in a transparent, and appropriate manner.

Our Values

- Act with high ethics, integrity, independence, and objectivity.
- Provide timely, objective, fair, and accurate reviews of City programs.
- Propose achievable solutions after identifying areas for improvement.
- Work collaboratively with staff to achieve results that improve governance.
- Adhere to Government Auditing Standards.
- Fully commit to every project.

Our Authority

The Office of the City Auditor is an independent office that reports to and is accountable to the City Council. Under Beverly Hills Municipal Code Title 2—Administration, Personnel, and Procedures, Chapter 3, Article 13 Office of the City Auditor:

The City Auditor shall have authority to conduct financial and performance audits of all departments, offices, boards, commissions, activities, and programs of the City in order to determine both independently and objectively whether:

1. Programs and activities have been appropriately authorized and are being conducted and funds expended in compliance with applicable laws;
2. The department and/or staff are acquiring, managing, protecting and using resources, including public funds, personnel, property, equipment, and space economically, efficiently, equitably, and effectively and in a manner consistent with the objectives intended by this Code, State law or applicable Federal law or regulation;
3. The City, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices;
4. The desired result or benefits are being achieved;
5. Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of, revenues and other resources;
6. Management has established adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls; and
7. There exist indications of fraud, abuse or illegal acts which require further investigation. (Ord. 17-O-2736, eff. 10-6-2017)

What is a Performance Audit?

Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

What You Can Expect

- At the beginning of each fiscal year, the City Auditor will propose an annual audit work plan that will identify all proposed audits to be undertaken throughout the year.
- The Office of the City Auditor (OCA) will notify entities of audits to be undertaken and coordinate communication through the Department Director and a department designated point of contact (POC).
- OCA will communicate audit objectives as they become more defined during the course of the audit.
- Performance audit objectives may vary and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. Thus, a performance audit may have more than one overall objective.
 - OCA will generally give a department from 7-14 calendar days to comment on a draft report. The time will vary depending on the nature of the engagement and the needs of City Council and the City Council Audit Committee.
 - Where OCA's reviews involve multiple parties and require coordination with more than one department, OCA will generally send a notification letter to the primary department and notify secondary departments of such work by telephone or e-mail message.
- OCA will discuss the status of recommendations in its public Recommendation Follow-Up reports on an ongoing basis.

What We Expect

- The Entrance Conference will be scheduled within 14 calendar days of OCA's request.
- The department will comply with OCA's request for access to any information requested under OCA authority.
- Department officials will designate a POC for OCA to use during the audit engagement. The POC is responsible for ensuring that Department management is kept aware of the audit engagement's progress, information requested by OCA, as well as any preliminary conclusions, findings, and recommendations communicated by OCA to the POC.
- Department officials who have oversight of the issues related to the engagement's objectives will attend the Exit Conference.
- Comments from the department on a draft report will provide: 1) a single position on the extent of their agreement or disagreement with OCA findings and on any conclusions and recommendations; and 2) the rationale for any disagreement.
- When OCA issues a report containing recommendations to the department director, OCA requests that the department provide a statement of action in its department response, including a timeline for completion.

Role of the City Council

The public sector entity must establish protections to ensure that audit activities are empowered to report significant issues to appropriate oversight authorities. The City Council accomplishes this through its oversight responsibility over the City's auditing function.

Section 5

Reporting Audit Results

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

REPORT PROCESS

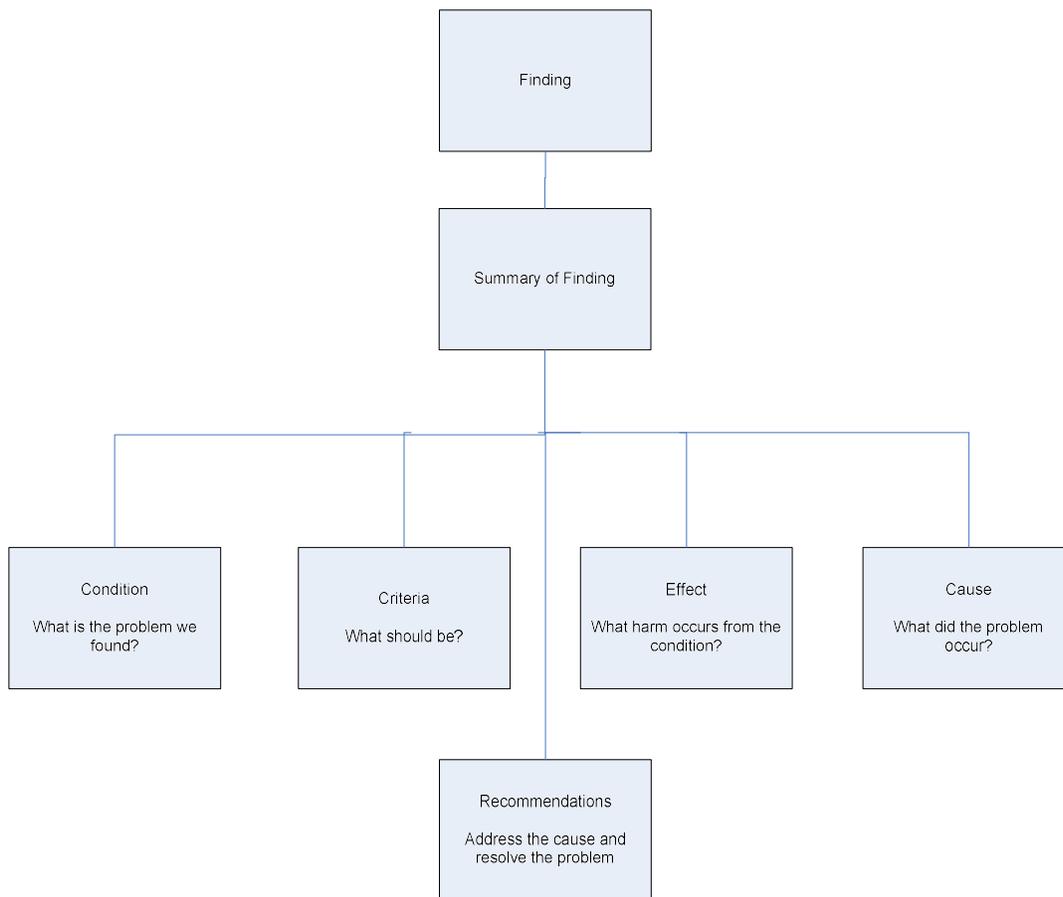
The report process begins at the end of field work, after auditors have completed all of the audit steps in the field work audit program and developed preliminary findings.

Report Process
<ul style="list-style-type: none">• Auditor creates document frame/report outline• Auditor develops draft report• Independent Report Review Process (Quality Control)• Draft audit report is issued to management• Exit Conference• Final draft report is issued to management• Management submits written response to audit report



Audit Report

1. Auditor creates document frame/report outline based on preliminary audit finding. The auditor drafts an introduction or summary that identifies the key issues and components of the report summary.



2. Auditor develops draft report based on office guidelines. See below for specific report content requirement and general writing guidelines.
3. The auditor reviews the draft report by checking that evidence is accurate and sufficient and that the findings, conclusions, and recommendations are well-argued and supported.
 - Overall quality of the draft and its consistency with the reporting standards for content and presentation.
 - Responsiveness to the assignment objectives.
 - Soundness of the evidence supporting the findings and recommendations.
 - Logic, reasonableness, and soundness of the argument supporting the findings and recommendations.
 - Appropriateness, constructiveness, and specificity of recommendations.
 - Professional quality of the writing and presentation.
4. The City Auditor reviews the draft report for message content, readability, and tone. At this point, the report draft may undergo a separate editorial review.
5. Independent Report Review. As discussed in Section 2, the independent report review is an important component of our quality assurance program. It is a detailed word-by-word, line-by-line examination of an indexed office draft of the report to ensure that its contents are accurate and supported. The City Auditor team will index and self-reference the draft report to verify the accuracy of the information and whether the evidence supports the contents of the draft. Once this process is complete, the report will be prepared for distribution, including proper formatting.
6. Draft report issued to entity management. Report draft should be transmitted to entity management.

7. Exit Meeting is held to review and discuss report with management. Meeting can be scheduled in advance.
8. Final draft report is issued. Management generally has two weeks to provide response to the draft report. The response addresses management's plans for implementing audit recommendations. Additional time may be granted based on City Auditor discretion.
9. Final Audit report issued.

REPORTING STANDARDS

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

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

Office of the City Auditor Report Content Policy

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

Transmittal Letter

Transmittal letter is addressed to the Mayor and City Council members. This letter includes the report title, reference to a written response, and audit team members. The report itself is addressed to the Department Director. The following are cc'd (copied): City Manager, Assistant City Manager, City Attorney, and department directors. See example Transmittal Letter below.

Executive Summary

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

Introduction

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

Reporting Auditor's Compliance with GAGAS

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.⁸

Office of the City Auditor Policy on Compliance with GAGAS

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

Background

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

⁸ GAS Section 9.03

Objectives, Scope, and Methodology

All audit reports should include a description of the audit objectives and the scope and methodology used for addressing the audit objectives. This information allows report users to understand the audit purpose, the nature and extent of the audit work performed, the context and perspective regarding what is reported, and any significant limitations in audit objectives, scope, or methodology.

Reporting Confidential or Sensitive Information

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

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

The Office of the City Auditor will comply with the California Public Records Act (PRA) which allows the public to access the records of State and local agencies upon request. The PRA allows for exemptions as specified in confidentiality provisions in applicable laws and regulations, such as for the protection of whistleblowers per California Government Code 53087.6. The Office of the City Auditor will adopt the more extensive record retention guidance between the City and Government Auditing Standards.

Report Findings

In the audit report, auditors should present sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. Clearly developed findings assist management or oversight officials of the audited entity in understanding the need for taking corrective action. If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant within the context of the audit objectives. However, the extent to which the elements for a finding are developed depends on the audit objectives. Thus, a finding or set of findings is complete to the extent that the auditors address the audit objectives. Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if: (1) the evidence is significant to the findings and conclusions within the context of the audit objectives; and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions.

Deficiencies in Internal Controls

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

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

When auditors conclude, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, they should report the matter as a finding. When auditors detect violations of provisions of contracts or grant agreements, or abuse that are not significant, they should communicate those findings in writing to officials of the audited entity unless the findings are inconsequential within the context of the audit objectives, considering both qualitative and quantitative factors. Determining whether or how to communicate to officials of the audited entity fraud, illegal acts, violation of provisions of contracts or grant agreements, or abuse that is inconsequential is a matter of the auditors' professional judgment. Auditors should document such communications.

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

Outside Reporting

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

1. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.⁹
2. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that (1) is significant to the findings and conclusions, and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.¹⁰

Office of the City Auditor Policy

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

⁹ GAS Section 9.45a

¹⁰ GAS Section 9.45a

Conclusions

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

Recommendations

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

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

Reporting Views of Responsible Officials

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

Obtaining the comments in writing is preferred, but oral comments are acceptable.¹¹ When auditors receive written comments from the responsible officials, they should include in their report a copy of the officials' written comments, or a summary of the comments received. Obtaining oral comments may be appropriate when, for example, there is a reporting date critical to meeting a user's needs; auditors have worked closely with the responsible officials throughout the conduct of the work and the parties are familiar with the findings and issues addressed in the draft report; or the auditors do not expect major disagreements with the findings, conclusions, and recommendations in the draft report, or major controversies with regard to issues discussed in the draft report.

Auditors should also include in the report an evaluation of the comments, as appropriate. In cases in which the audited entity provides technical comments in addition to its written or oral comments on the report, auditors may disclose in the report that such comments were received. When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the

¹¹ When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments and provide a copy of the summary to the responsible officials to verify that the comments are accurately stated.

auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement. Conversely, the auditors should modify their report as necessary if they find the comments valid and supported with sufficient, appropriate evidence.

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

Office of the City Auditor Policy on Reporting Views of Responsible Officials

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

The purpose of the Exit Conference meeting is to provide the responsible officials of the audited program the opportunity to state their views concerning the auditors' findings, conclusions, and recommendations, as well as corrections planned. To ensure that the audit report is fair, complete, and objective, the City Auditor provides management with a draft audit report and schedules an Exit Conference. At this meeting, management can state their views concerning the audit findings, conclusions, and explain the corrections they plan to do in response to the audit findings and recommendations. Based on the outcome of the Exit Conference, a final draft report, incorporating any changes discussed at the meeting will be issued to management. Management will generally have two weeks to respond to the final draft report. The City Auditor may grant an extension at his discretion.

Report Distribution

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

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

Example of Transmittal Letter



June 30, 2019

Honorable Mayor and City Council
City of Beverly Hills, California

Transmitted herewith is an audit report on _____. The Results in Brief is presented on page _____. Management's response to our audit recommendations can be found after page ____ of the report.

We would like to thank _____ staff, as well as representatives from other City departments for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information is greatly appreciated.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: _____, City Manager
_____, Assistant City Manager
_____, Director, Department
_____, City Attorney
_____, Department Directors

Report Writing Audit Program

Audit Procedures Report Writing

1. Report Frame/Outline
2. City Auditor develops draft report
3. Independent Report Review Process
4. Report draft is edited
5. Draft audit report issued to management
6. Exit Conference
7. Final draft report is issued to management
8. Management submits written response to audit report
9. Final audit report is issued with written response.

Section 6

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

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

Audit Work Plan

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

The Annual Audit Work Plan will be presented to the City Council on an annual basis. Requests to add audits to the work plan midyear will be presented to the City Council with a City Auditor analysis of the impact of adding the proposed audit to the work plan.

Recommendation Follow-Up Process

In order to ensure recommendations are implemented on a timely basis, the City Auditor will undertake a semi-annual recommendation follow-up process to track the status of all previous audit recommendations.

In January and July of each year, the Office communicates with the management to initiate the recommendation follow up process. During this process, departments update the status of all open recommendations. For recommendations that are reported as implemented, department management or staff should submit proof of implementation. Audit staff will review management responses and conduct follow-up work to verify recommendations deemed "Implemented." For each open recommendation, the auditor will write a brief summary of their findings, and note if the recommendation is implemented, in process, or not implemented. The report will also call out recommendations that need additional funding for implementation; result in increased revenues; or achieve cost savings for the City. Management will have an opportunity to review the draft recommendation report prior to issuance.

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

Annual Accomplishments Reports

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

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

The City Auditor will distribute this report to the Mayor, City Council, City Administration, and the public.

Section 7

Agreed-Upon Procedures Attestation Engagements

The office does not perform attestation engagements. In the event that an attestation engagement is requested, the Office will develop appropriate procedures.

Section 8

Trust and Innovation Portal

In September 2019, the Office of the City Auditor implemented the Trust & Innovation Portal (TIP) as a tool to provide City of Beverly Hills employees, residents, vendors, and others to confidentially report: (1) any activity or conduct in which he/she suspects instances of fraud, waste, or abuse; (2) violations of certain federal or state laws and regulations relating to fraud, waste, or abuse as it is defined at California Government Code §53087.6(f)(2); and (3) offer suggestions for improving the efficiency and effectiveness of City operations.

Researching innovation suggestions will be considered a non-audit service. See page 12 for office policy on nonaudit services. As per the Yellow Book Section 3.72 J (3), examples include providing audit, investigative, and oversight-related services that do not involve a GAGAS engagement, such as investigations of alleged fraud, violation of contract provisions or grant agreements, or abuse...or identifying best practices or leading practices for use in advancing the practices of government organizations.

The City Auditor's Office maintains a separate TIP Fraud Procedures Manual that outlines the complete reporting and investigative process. Fraud investigations have their own set of standards that fall outside the requirements of Government Auditing Standards. Procedures for identifying best or leading practices via the TIP hotline are subsequently described.

TIP will have a module configured to receive suggestions or ideas from the public and employees on improving City government. Reporting parties will be made aware that we are looking for ideas to improve transparency and accountability, increase efficiency and effectiveness, reduce costs, and/or improve service delivery. Reporting parties will be asked to complete the following questions:

1. Do you have any idea or suggestion that can improve City Government?
2. What department does your suggestion involve?
3. Your idea can improve:
 - a. Transparency and Accountability
 - b. Operational Efficiency
 - c. Reducing Costs
 - d. Service Delivery
 - e. Other (Please Specify)
4. Describe your idea or suggestion.
5. Upload or attach any supporting information.

The City Auditor will research submittals and present suggestions to the City Council for further direction. This includes receiving and logging suggestions, and conducting preliminary research and making an assessment whether the suggestion merits further in depth study. On a quarterly basis, the City Auditor will prepare a report that summarizes the proposed suggestions and recommendations. The report will be presented to the Audit and Finance Committee Liaisons and City Council to solicit further direction on which ideas to research further. Once research has completed, the City Auditor will prepare a final report with recommendations. This information can be included in the appropriate quarterly report.

To manage public expectations regarding the implementation of their submittals, the website will also include the following language:

“The Office of the City Auditor will review all submittals and summarize ideas in a report to City Council. Please note that the City’s decision to implement proposals will be based on various factors such as, but not limited to, the Adopted Budget, staff and resource capacity, and City Council priorities. The City values all input. Even if your proposal is not implemented, it will certainly facilitate necessary conversations for the continued improvement of our City operations.”