

INTERNAL AUDIT DEPARTMENT

POLICIES AND PROCEDURES MANUAL

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INTERNAL AUDIT
DEPARTMENT
CITY OF SANTA FE

*Santa Fe: The
City Different,
The City
Prepared*



**City of Santa Fe
Internal Audit Department Policies and Procedures
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SUBJECT:

Internal Audit Policies and Procedures Manual	Policy Number	# Pages
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1.0 PURPOSE:

1.1 These policies and the underlying procedures are intended to serve as a reference and guide for the auditor and the auditee, to help ensure that work is of high quality, complies with audit standards, and helps to explain the work process to interested parties.

2.0 APPLICABLE TO:

2.1 Internal Audit Department and auditees.

3.0 REFERENCES:

3.1 Santa Fe City Code 1987 (SFCC) §2.22

4.1 City Ordinances NO. 2012-32, and NO. 2013-34, Internal Audit;

3.2 City Ordinance 2013-35, Audit Committee;

3.3 Generally Accepted Governmental Auditing Standards Government Auditing Standards (GAGAS) issued by the United States Government Accounting Office (GAO); and

3.4 International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditor (IIA).

4.0 DEFINITIONS:

For the purpose of these policies and procedures, the following definitions shall apply unless the context clearly indicates or requires a different meaning.

5.1 *Auditees* mean the city related departments, programs, activities, agencies, vendors, contractors, employees, public officials or other city related entities affected by an audit or investigation;

4.2 *Auditor* refers to the person conducting audit or investigation;

4.3 *Continuing Professional Education* refers to the hours required to maintain professional certification;

4.4 *Governing Body* refers to the Mayor and members of the City Council;

4.5 *Independence* refers to a state of being that is free from outside influence;

4.5.1 *Independence of Mind* - The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

4.5.2 *Independence of Appearance* - The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised (GAGAS 3.03).

4.6 *Methodology* is the approach taken to complete and to document the audit.

4.7 *Objectives* are what the audit is intended to accomplish.

4.8 *Objectivity* refers to basing decisions on persuasive evidence;

4.9 *Professional Judgment* requires the auditor to plan and perform the audit exercising professional skepticism and to base judgments on persuasive evidence rather than personal opinion.

4.10 *Scope* is the boundary of the audit and is directly tied to the audit objectives.

4.11 *Specialists* refer to individuals on staff or hired as contractors to perform an audit that requires specialized knowledge;

4.12 *Technical Competence* requires that the auditors conducting an audit collectively have the required skills, training, and experience to conduct the audit.

5.0 POLICY:

The Internal Audit Department shall adhere to Generally Accepted Governmental Auditing Standards as defined by the United States Government Accounting Office, and to all pertinent City Ordinances in conducting its work.

5.1 MISSION & AUTHORITY

5.1.1 Vision Statement

An audit function that has earned the trust of the City's citizens, elected officials, and employees.

5.1.2 Mission Statement

The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.

5.1.3 Authority & Reporting Structure

The Internal Audit Department and the role of Internal Auditor were created by City Ordinance No. 2012-32 and amended by City Ordinance No. 2013-34, Section 2-22 SFCC 1987. The Internal Audit Department derives its authority to conduct audits of City departments, programs, vendors and contracts from these ordinances.

The Internal Auditor is the head of the Internal Audit Department and shall report to the City Manager.

The ordinance directs the Internal Auditor to conduct audits in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) promulgated by the United States Comptroller General.¹

Government Auditing Standards are available at: <http://gao.gov/yellowbook>

5.1.4 Auditor's Annual Budget

City Ordinance 2012-34 2-22.4 (J) stipulates that Internal Audit will have a budget as a separate department. The budget shall be sufficient to allow Internal Audit to carry out its responsibilities and shall include sufficient funding for continuing professional education and professional certification as required by GAGAS.

5.2 AUDIT QUALITY

The Internal Audit Department has a commitment to achieving a high level of audit quality. Audit quality is achieved through adherence to professional auditing standards and through proper training and the peer review process. The standards detailed below are adopted to ensure a consistently high level of audit quality.

5.2.1 Professional Auditing Standards

The Internal Audit Department is committed to achieving a high level of audit quality and a measurable impact related to City operations. Audit quality is achieved through the adherence to professional auditing standards including proper training and periodic peer reviews.

All audits will be conducted in accordance with GAGAS standards.

5.2.2 Ethical Requirements

The Internal Audit Department complies with and adheres to applicable ethical requirements. These include compliance with general City mandates contained in City Policies and Procedures, and ordinances as well as guidance promulgated by the IIA U.S. (**See APPENDIX Form #1, Code of Ethics**).

5.2.3 Auditee Relations

The cooperation of City officials, employees and contractors is mandated in SFCC §2-22.10 (A).

The Internal Auditor is expected to be courteous and tactful, and to conduct him or herself in a professional manner that reflects favorably on the Internal Audit Department.

5.2.4 Contact with the Governing Body and Members of the Media

Contact with members of the Governing Body is required from time to time and is an important aspect of independence. Judgment and prudence are key elements to discerning if and when contact is necessary.

At times it may be necessary to directly email or otherwise contact the Mayor or other members of the Governing Body, for example when doing interviews for the annual audit plan.

¹ Government Auditing Standards, GAO-12-331G, December 2011.

At times it may be necessary to have contact with the media. Contact with the media should be done through the City Information Officer.

When contact with the governing body or the media occurs it may be appropriate to copy or notify the City Manager so that he is informed if they have questions. This may not be the case in all situations and discernment is required.

5.2.5 Competence and Training

The Internal Audit Department is committed to ensuring maintenance of professional proficiency and achievement of professional growth through continuing education and training.

GAGAS requires technical competence in performing an audit. Whether the department has one staff or fifteen, the requirement holds. Competence is recognized through the certification process and therefore professional certifications including specialty certifications are strongly encouraged. These certifications require annual continuing professional education hours which shall be supported by the department to the extent that they serve the Internal Audit function and the City.

Every audit shall include a completed form asserting to the technical competence of the staff conducting the audit (**See APPENDIX Form #2, Auditor's Technical and Competence Statement**).

Staff assigned to perform an audit or attestation engagement must collectively possess adequate professional competence for the tasks required. The standard places responsibility on the audit department to ensure that each audit or attestation engagement is performed by a team that, taken as a whole, possesses the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. The success of the Internal Audit department in carrying out its mission depends on having a competent, well-trained staff.

GAGAS 3.76 requires that "auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work in accordance with 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. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits 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. 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 periods. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours."

See table on following page:

CPE Estimates	Overlap with other Certifications	CPE Requirement	How Often	Minimum Annual	Annual Requirement
Chief Auditor	Varies	24 (Govt.)+ 56 (General)+40 (Specialty)	Every 2 years	20	60 (12 govt. +28 gen, 20 remainder - specialty)
Staff Auditor	Yes	24 (Govt.)	Every 2 years	20	40
Specialist, CISA	Conditional (only if related to IT controls)	120 hours	Every 3 years	20	40
Specialist, CIA	Yes	120 hours	Every 3 years	20	40
Specialist, CPA	Yes	120 hours	Every 3 years	20	40

Each auditor should schedule sufficient hours of training to meet the hourly requirements described above, as applicable, as well as those required for retaining other certifications that support the internal audit function, if any. The Internal Audit Department maintains a record of the training and education received by audit staff.

Specialists assisting in performing a GAGAS assignment should be qualified and maintain professional competence in their areas of specialization. Because internal specialists apply specialized knowledge in government audits, training in their areas of specialization qualify under the requirement for 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 but are not required to meet the GAGAS CPE requirements. Auditors should assess the professional qualifications of such specialists and document their findings and conclusions.

5.2.6 Independence and Objectivity

The Internal Audit Department and the City of Santa Fe are committed to having an independent internal audit function. SFCC 2-22.5 (B) states that “The internal auditor shall adhere to generally accepted governmental auditing standards in conducting its work and will be considered independent as defined by those standards.”

The Internal Audit Department complies with GAGAS 3.02 independence standards that state “In all matters relating to the audit work, the audit organization, and the individual auditor, whether government or public, must be independent.”

In order to ensure and strengthen independence the Internal Auditor shall report results to the City Manager, the Audit Committee and the Governing Body.

GAGAS Conceptual Framework Approach to Independence

GAGAS has a conceptual framework designed to direct the auditor through a series of questions that identify threats, if any, to independence. If threats exist the auditor needs to document those threats, and to determine if safeguards exist to mitigate the threat(s) to an acceptable level. If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired (GAGAS 3.09).

This conceptual framework has been used to create a checklist (See **APPENDIX Audit Form #3, Auditor's Independence and Objectivity Checklist**).

The checklist needs to be completed:

- 1) Annually;
 - a. Also complete “**Auditor's Annual Independence and Objectivity Statement**” (See **APPENDIX Audit Form #4**).
 - b. This form and the completed checklist are to be filed at
m:\auditor\Administrative\Perm File – Internal Audit\Annual Signed Independence Statements
- 2) Prior to commencing an assignment:
 - a. Also complete “**Auditor's Assignments – Independence and Objectivity Statement**” (See **APPENDIX Audit Form #5**).
 - b. This form and the completed checklist are to be filed in the planning section of electronic workpapers for each audit.

Assessing Organizational Threats to Independence

Based on GAGAS requirements (GAGAS 3.31 Internal Auditor Independence) and the assessment of the Internal Audit Department, which is summarized on the following page:

The City of Santa Fe, Internal Audit Department is considered free from organizational impairments to independence.

GAGAS Criteria for Internal Audit to be considered independent of City Management:	Assessment by the Internal Audit Department	References / Citations / Comments
The Department Head:	Legal Precedence	
a. Is accountable to the head or deputy head of the government entity or those charged with governance.	The City of Santa Fe meets this criteria in SFCC §2.22.4 (A).	“The internal audit department is created as an independent office of city government. The internal auditor is the head of the internal audit department and shall report to the city manager.”
b. Reports the audit results both to the head or deputy head of the government entity and to those charged with governance.	The City of Santa Fe meets this criteria in SFCC §2.22.4 (E).	“The internal auditor is required to submit reports to the City Manager, The City Council via the Finance Committee, and to the Audit Committee.”
c. Is located organizationally outside the staff or line management function of the unit under audit.	The City of Santa Fe meets this criteria in SFCC §2.22.4 (A).	“The internal audit department is created as an independent office of city government. The internal auditor is the head of the internal audit department and shall report to the city manager.” The Internal Auditor has a direct reporting line to the City Manager as an independent department.
d. Has access to those charged with governance.	The City of Santa Fe meets this criteria in SFCC§2.22.10 (A).	“All city officials, employees and contractors shall provide the internal auditor full unrestricted access to all city offices, employees, records, information, data, reports....” The Internal Auditor is granted unrestricted access to all city officials, employees and contractors, and records.
e. Is sufficiently removed from political pressures to conduct audits and report findings / issues, opinions, and conclusions objectively without fear of political reprisal.	The City of Santa Fe meets this criteria in SFCC §2.22-2 (E) (4). Additionally, a whistleblower section was added: Ordinance 2013-4 2.22.10 (B).	The internal auditor “is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of reprisal.”

5.2.7 Professional Judgment

Professional judgment must be used in planning and performing audits and attestation engagements and in the reporting of the results.

Auditors must:

- 1) Exercise reasonable care and diligence and observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity, and independence in applying professional judgment to all aspects of their work;
- 2) Use professional judgment in determining the type of assignment to be performed and the standards that apply to the work; defining the scope of work; selecting the methodology; determining the type and amount of evidence to be gathered; and choosing the tests and procedures for their work. Professional judgment also should be applied in performing the tests and procedures and in evaluating and reporting the results of the work;
- 3) Exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence. Auditors use the knowledge, skills, and experience called for by their profession to diligently perform, in good faith and with integrity, the gathering of evidence and the objective evaluation of the sufficiency, competency, and relevancy of evidence. Since evidence is gathered and evaluated throughout the assignment, professional skepticism should be exercised throughout the assignment;
- 4) Neither assume that management is dishonest nor assume unquestioned honesty; in exercising professional skepticism, auditors should not be satisfied with less than persuasive evidence because of a belief that management is honest.

The exercise of professional judgment allows auditors to obtain reasonable assurance that material misstatements or significant inaccuracies in data will likely be detected if they exist. Absolute assurance is not attainable because of the nature of evidence and characteristics of fraud. Therefore, an audit or attestation engagement conducted in accordance with GAGAS may not detect a material misstatement or significant inaccuracy, whether from error or fraud, illegal acts, or violations of provisions of contracts or grant agreements. Accordingly, while the standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an assignment, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization (GAGAS 3.60 – 3.68).

5.2.8 Confidentiality

5.2.9 Audit reports are subject to confidentiality rules as specified in SFCC §22 and the Inspection of Public Records Act NMSA 1978. **Record Retention and Access**

The Internal Audit Department will retain records in accordance with New Mexico State Auditor's Regulation NMAC§1.15.3.148 which states that audit records will be kept for a period of five years after close of fiscal year audited.

These records consist of paper, electronic, and other media formats. Hard copy and paper audit documentation is stored and secured on site in the file room. Electronic files are stored in the M:\auditor\FYE 20XX\Audits\name of audit\Workpapers and or Report. These files are backed up routinely. Access to the shared drive is limited.

5.2.10 Customer Satisfaction Surveys

The Internal Audit Department issues customer satisfaction surveys to the recipients of internal audit services. The Internal Audit Department adheres to a policy that emphasizes the importance of maintaining effective relations with auditees and that relies on constructive feedback to propel internal continuous improvement activities. The Internal Audit Department strives for high customer satisfaction ratings (See **ADDENDIX Audit Form #6, Survey**).

5.2.11 Quality Assurance

GAGAS requires that audit organizations have an external quality control review at least every three years. An external quality control review, or peer review, consists of a team of external audit professionals assessing the adequacy of the audit organization's internal quality control system and its overall level of compliance with GAGAS.

This is also mandated in SFCC 2-22.5 (C) which states that "the internal audit department is subject to a peer review by an appropriate non-partisan group every three to five years. A copy of the written report shall be furnished to the city manager, audit committee, and governing body, via the finance committee."

The Internal Auditor will participate in the Association of Local Government Auditors (ALGA) peer review process in order to mitigate the costs of the review and to enhance the quality of the internal audit process. The Internal Auditor will participate as a reviewer as required, and will be subject to an external quality control review by an independent ALGA team every three years. These reviews are done by audit professionals from other local governments using the *ALGA Peer Review Guide*. The Internal Auditor will schedule and arrange the review and communicate the results as specified above. Any deficiencies noted in the review will be addressed and corrected in a timely manner. Upon completion, the peer review report will be made available to the public on the Internal Audit Department's website (See **Section 5 (L), and APPENDIX Audit Form #12, Audit Quality Assurance Checklist**).

5.2.12 Position Descriptions

The Internal Audit Department consists of one Internal Auditor.

The job description for the Internal Auditor² is as follows:

- 1) "Assists with and conducts development of audit scope and objectives; conducts audits of City operations and internal systems controls that include all operational areas including compliance, documentation, and operating practices; audits department records to assure accurate recording of transactions, and compliance with laws, regulations, policies, procedures and management goals; inspects accounting systems to determine the protective value; assesses the proper accountability of assets, documents findings and formulates recommendations to correct deficiencies, reduce risk and costs, and improve performance.
- 2) Interviews staff, and analyzes the reliability and effectiveness of operational policies and practices; reviews performance measures and reporting methods; analyzes data obtained for evidence of deficiencies in controls, duplication of effort, extravagance, fraud, or lack of compliance with laws, regulations, policies and procedures.

² Classification Description for Internal Auditor, received from Human Resources, dated 08/30/12

- 3) Documents audit findings; prepares draft report of findings and recommendations for management to correct deficiencies; meets with the organization to present findings and recommendations; conducts follow up reviews to assure implementation of recommendations.
- 4) Conducts special studies to analyze compliance and internal control issues, fraud prevention, and allegations of inappropriate activity as assigned.”
- 5) Also, the Internal Auditor will provide status updates to the Audit Committee, including draft information, and will provide the Audit Committee with final reports prior to delivery and publication.

In addition the Internal Auditor is also responsible for the following duties:

- 1) Sending out and compiling the annual Risk Assessment;
- 2) Completing and communicating an annual Audit Plan (due 60 days prior to FYE);
- 3) Staff liaison to the Audit Committee:
 - a. Assisting with preparing the agenda;
 - b. Ensuring that packet is complete;
- 4) Coordinating the Lodger’s Tax audit:
 - a. Developing Scope of audit;
 - b. Issuing request for proposal (RFP);
 - c. Participating in the selection committee;
- 5) Coordinating other audits as approved by City Council:
 - a. Developing scope of audit;
 - b. Issuing request for proposal (RFP), as applicable;
 - c. Participating in the selection committee;
- 6) Reports:
 - a. Writing;
 - b. Editing, with assistance from the Audit Committee;
 - c. Quality assurance; and
 - d. Communicating results;
- 7) Communicating final audit reports to:
 - a. Audit Committee;
 - b. City Manager;
 - c. Governing Body via the Finance Committee; and
 - d. Posting on website;
- 8) Budget:
 - a. Creating;

- b. Adjusting; and Monitoring;
- 9) Policies and Procedures:
 - a. Writing; Editing;
 - b. Updating; and posting on website;
- 10) Website:
 - a. Creation;
 - b. Editing; and
 - c. Maintenance
- 11) Developing an annual training plan to ensure all CPE requirements are met;
- 12) Facilitating the Peer Review process;
- 13) Benchmarking with other local government internal audit departments;
- 14) Maintaining membership in professional organizations and participating, as time permits, in governance.

5.2.13 Audit Assignment Process

Audits are assigned based on the audit plan. Any changes to the audit plan must be approved by the Audit Committee.

5.3 TYPES OF AUDITS & SERVICES

5.3.1 Overview

The Internal Audit Department examines and evaluates City departments and programs as a service to City management, elected officials and the general public. The Internal Audit Department promotes the disciplines of accountability, transparency, and fiscal stability by providing critical services and information to citizens, elected officials and management regarding compliance and the performance of City departments and programs. The Internal Audit Department serves in the capacity of an objective and independent monitoring and internal control resource, as well as providing a key enterprise-wide threading conduit, the Internal Audit Department is an indispensable part of the City's operational structure. The Internal Audit Department retains skilled personnel who are focused on helping City management and employees continuously improve their performance in support of the City's strategic themes and goals.

The Internal Audit Department issues final reports to the Audit Committee, Mayor, City Council and senior City management officials, who use the information to monitor and improve City operations. Additionally, all final audit reports are deemed public documents and are posted on the Internal Audit Department's website. The Internal Audit Department also provides management advisory services to City departments and programs to enhance their operational effectiveness and to help them realize City goals.

The following is a general overview of the products and services provided by the Internal Audit Department to enhance the efficiency and effectiveness of City government operations. These services can be combined when reviewing or auditing City department and program operations.

The Internal Audit Department conducts the following types of performance and financial audits as defined by GAGAS, and as specified in City Ordinance SFCC §2-22.6 (B):

5.3.2 Performance Audits

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient and appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability (GAGAS 2.10 – 2.11).

A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

Performance audit objectives may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an initial objective of program effectiveness may also involve an underlying objective of evaluating internal controls to determine the reason for a program's lack of effectiveness or how effectiveness can be improved (GAGAS 2.11).

5.3.3 Financial Audits

Financial audits provide an independent assessment of and reasonable assurance about whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with recognized criteria. Reporting on financial audits performed in accordance with GAGAS also includes reports on internal control, compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes (GAGAS 2.07 – 2.09).

5.3.4 Attestation Engagements

Attestation engagements can cover a broad range of financial or non-financial objectives and may provide different levels of assurance about the subject matter or assertion depending on the users' needs. Attestation engagements result in an examination, a review, or agreed-upon procedures about a subject matter that is the responsibility of another party (GAGAS 2.09).

The Internal Audit Department generally does not perform Financial or Attestation Engagements. If and when the Internal Audit Department engages in either a Financial or Attestation Engagement the Department adheres to applicable GAGAS requirements.

5.3.5 Advisory (Non-Audit) Services

In addition to conducting performance and financial audits, the Internal Audit Department may provide a range of advisory services to assist managers in achievement of their goals and objectives. GAGAS does not cover professional services (non-audit services). As a result, the Internal Audit Department does not report that non-audit services are conducted in accordance with GAGAS. Advisory services are dependent upon the availability of audit staff with appropriate