

Performance Audit Policies and Procedures

**Office of the City Auditor
City of Lawrence, Kansas
December 2011**

Introduction

The City Auditor examines and evaluates city activities to assist the City Commission to effectively discharge their duties. The auditor provides independent, objective, professional analysis and reporting to the City Commission. 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 Code of the City of Lawrence.

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.

Authority

The City Code establishes the Office of City Auditor; duties of the auditor; access to records; requirement to follow standards; and processes for audit planning, management response, audit release, and follow-up (Chapter 1, Article 4A of the Code of the City of Lawrence, Ordinance No. 8060).

Standards

The City Auditor follows *Government Auditing Standards* (December 2011 revision) issued by the Comptroller General of the United States.¹ The auditor follows the foundation and ethical principles; standards for the use and application of GAGAS; general standards; fieldwork standards for performance audits; and reporting standards for performance audits (Chapters 1, 2, 3, 6 and 7).

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

This *Performance Audit Policies and Procedures* address most of the work and situations that the City Auditor encounters in conducting performance audits. If the auditor encounters situations not covered in this document, then the auditor reviews *Government Auditing Standards* for direction.

Independence

Government Auditing Standards require that:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.

The City Auditor reports to the City Commission as established in the City Code. The City Commission also appoints the auditor. This organizational structure safeguards the audit organization from threats to independence

The City Auditor signs an independence statement when beginning each assignment. If specialists, other staff, or interns conduct any of the audit work, then they must also sign an independence statement. The auditor maintains the independence statements with the audit work papers for each project. In signing the independence statement, the auditor has an opportunity to identify potential threats to independence.

If the City Auditor identifies a threat to independence, then the auditor evaluates the threat and considers safeguards to reduce the threat to an acceptable level. The auditor follows the conceptual framework for independence from *Government Auditing Standards*. The framework can involve identifying threats, considering their significance, applying safeguards, reconsidering the threat, and documenting both the threat and the safeguards. If the auditor identifies a threat that can't be reduced to an acceptable level, the auditor will decline to perform the work. If the City Commission directs the auditor to perform the work anyway, then the auditor includes a discussion of the independence issues in the report.

If the City Auditor identifies a threat to independence during the audit work or after a report was issued, then the auditor evaluates the impact of the threat and considers

¹ The City Commission received the City Auditor's policy on following *Government Auditing Standards* at the December 6, 2011, City Commission meeting.

safeguards. If safeguards don't adequately address the threat to independence, then the auditor informs the City Commission and City Manager of the impairment and the impact on the audit work. If a report that has already released would change as the result of the threat, then the auditor communicates that through the same process as communicating the results of an audit report. The auditor posts updated information on the City Auditor web page.

If the City Auditor does, or is asked to do, work that does not follow audit standards, then the auditor evaluates whether the work threatens independence. As a first step, the auditor considers whether *Government Auditing Standards* specifically prohibit the work (see *Government Auditing Standards* sections 3.36 and 3.49-3.58). If necessary, the auditor considers the work in terms of overarching independence principles by asking:

- Does the work involve auditing the auditors own work?
- Does the work involve performing a management function or making management decisions?

“Yes” answers to either of the questions indicate that doing the work could impair independence.

If the City Auditor determines that the work doesn't impair independence or that applying safeguards adequately protects independence, then the auditor documents consideration of the threat and application of safeguards and may complete the work.

The City Auditor's policy is to avoid doing work that impairs independence. If the City Commission directs the auditor to conduct work that impairs independence, then the City Auditor may conduct the work, but would document and report the impairment in the final report.

The City Auditor may provide routine services which don't constitute audit work and don't necessarily threaten independence. Routine services may include providing advice on routine matters, training, and readily available information on benchmarking or best practices.

Professional Judgment

The City Auditor must use professional judgment throughout the audit process to make decisions about an audit's scope, objectives, method, findings, conclusions, and recommendations. The auditor also uses professional judgment to identify threats to independence and safeguards to protect against those threats. The auditor documents significant decisions about scope, objectives, methods, findings, conclusions, and recommendations resulting from professional judgment in the work papers.

Audit Selection

The City Auditor presents a proposed audit work program to the City Commission on an annual basis. The plan identifies audit topics. Before presenting it to the City Commission, the auditor discusses the work program with the City Manager to ensure coordination with the City Manager. The City Commission can amend or alter the work program. The City Code establishes this process for the annual work program.

Audit selection involves identifying topics and allocating resources to those topics. If an audit topic is included in an annual plan but not completed during that year, then the topic will be considered in the next year's audit plan.

General principles considered during audit selection may include identifying topics that:

- cover a range of city issues and functions;
- reflect residents' interests;
- reflect City Commission interests and priorities;
- reflect city management's interests;
- encourage and support performance measurement;
- encourage and support financial and management controls;
- recognize the broad scope of performance auditing;

The City Auditor considers the necessary professional and technical competence to complete the projects included in the annual plan. Including a proposed audit in the plan indicates the auditor's conclusion that the auditor possesses adequate professional and technical competence to complete the project. If the City Commission modifies the annual plan to include an audit for which the auditor doesn't have the professional and technical competence to complete the work, then the auditor will inform the City Commission of that and suggest either modifying the scope of the work, removing the project from the plan, or using a consultant who has the necessary professional or technical competence.

Planning

Planning involves developing an understanding of the issue under audit, setting audit scope and objectives, planning the work necessary to answer the objectives, and communicating about the project with management. *Government Auditing Standards* require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives.

The City Auditor holds an entrance conference with relevant management as part of the planning process. The entrance conference gives the auditor and management a chance

to discuss the audit process and the audit project. At the entrance conference, the auditor explains the purpose and general scope of the audit; describes the audit process; identifies main contact people in the relevant departments; and asks for input about any areas of concern.

As early in the process as possible, the City Auditor drafts a “scope statement” that describes the reason for the audit, probable audit issues, and probable audit methods. The auditor updates the scope statement throughout planning and maintains the scope statement in the work papers.

The City Auditor prepares a planning work plan to guide the planning work.

The City Auditor prepares a planning summary work paper that addresses the planning work and any conclusions related to:

- The nature and profile of the program or issue;
- Needs of potential users of the audit report;
- Internal control as it relates to the specific objectives and scope of the audit;
- Information systems controls within the context of the audit objectives;
- Compliance (legal, regulatory, contract, and/or grant) within the context of the audit objectives;
- Potential fraud or abuse within the context of the audit objectives;
- Results of previous relevant audits;
- Potential criteria;
- Potential sources of audit evidence; and
- Whether work of other auditors or experts address audit objectives.

If the City Auditor determines that specialists, other staff, or interns should perform some of the audit work, then the auditor considers their qualifications to complete the work. The auditor documents the assessment in the work papers.

Planning results in an audit scope statement and a work plan. The work plan includes audit objectives. Collectively, the audit work steps should:

- Address the audit objectives;
- Design work that is within the planned scope of the audit;

- Design collection of sufficient, competent, and reliable evidence to support findings and conclusions relevant to the audit objectives;
- Design collection of evidence on relevant finding elements; and
- Avoid unnecessary work.

Fieldwork

Fieldwork involves completing the planned work to address the audit objectives. During fieldwork, the City Auditor collects evidence to provide reasonable assurance that evidence is sufficient and appropriate to support the auditor's findings and conclusions.

Work papers include title, date, purpose, source, method, and conclusion as appropriate.

If specialists, other staff, or interns complete any of the audit work, then their work will be documented in work papers. If specialists assist with an audit project, then the City Auditor will assess their professional qualifications and document the assessment in the work papers. The auditor will review any work papers prepared by specialists, other staff, or interns to ensure the quality of the work.

The City Auditor holds a post-fieldwork conference with relevant management at the end of fieldwork. The purpose of the post-fieldwork conference is to share preliminary findings and conclusions with management, get any initial reactions, discuss potential recommendations, and address any other issues of concern.

Reporting

Reporting involves communicating the conclusions and recommendations of the audit to the City Commission, management, and the public. Reporting also provides a record of the audit for follow-up.

The City Auditor communicates the results of the audit work through reports that include:

- Audit findings, conclusions, and recommendations;
- The scope, objectives and method;
- Views of responsible officials (City Code requires the City Manager and/or relevant city staff to write responses);
- The nature of any omitted information;² and

² The City Auditor omits information from the report if disclosing the information is prohibited by law or regulation or the information is confidential or sensitive. Before omitting information, the auditor will meet with the City Attorney to discuss the information and the decision to omit the information. If the

- Statement of compliance with *Government Auditing Standards*.

The report should provide the reader with information to understand the City Auditor's work on internal controls and problems with those controls within the context of the audit's objectives. The auditor generally writes reports without using the term "internal control" to avoid unnecessary jargon.

The City Auditor includes this statement when the report fully complies with *Government Auditing Standards*:

The City Auditor conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. The City Auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

The City Auditor modifies the compliance statement if the work does not fully comply with *Government Auditing Standards*.

If the City Auditor terminates an audit project before releasing a report, then the auditor documents the work completed to date and the reason for not completing the project, and notifies the City Manager and the City Commission of the projects' status.

Quality assurance

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, *Government Auditing Standards*, work programs and plans, report referencing, reviews and discussions with management, and public reporting.

Before releasing a report, the City Auditor references the report to the work papers. In addition to referencing text to specific work papers, text can be referenced as a statement, conclusion, recommendation, or summary. Statements refer to text not necessary to reference to a specific source because it is generally accepted as true or because the writer is an authoritative source. Conclusions refer to text that derives logically from other text in the report. Recommendations refer to text describing an audit recommendation. Summary refers to text that summarizes other parts of the report.

auditor omits information, then the auditor documents the decision to omit information, reports the fact, and characterizes the reason for excluding the information.

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?

If the audit touches on legal or compliance issues, or if the City Auditor otherwise believes legal review is called for, then the auditor provides 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 a 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 auditor files the checklist with the audit work papers.

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 Commission 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 Commission with the peer review report and will post the peer review report on the City web page.

Management review and response

The City Auditor provides relevant management, including the City Manager, with a draft of the report before releasing the final report. The auditor asks management to respond in writing to the audit findings and recommendations.³ If management disagrees, then they should provide reasons for disagreement. Management should provide plans

³ The City Code requires management's response to be written. If the City Auditor determines that oral comments sufficiently meet the needs of the City Commission, then the auditor will ask management for those comments, summarize the comments, and share the summary before finalizing the report.

for implementing solutions (including a timetable). Management's response will be included in the final report.

Management should respond to the auditor within 5 working days. If management fails to respond in a reasonable period of time, then the City Auditor may release the report without management's response and with an explanation that management did not provide a response.

As necessary, the City Auditor meets with management after reviewing management's response. The purpose of the meeting is to discuss the audit and management's response. If appropriate, the auditor will revise the draft report and offer management an opportunity to review the changes and revise management's response. In general, management would be given up to an additional 5 working days for that response.

The City Auditor evaluates management's response. The auditor may revise the report, including the recommendations, based on information provided in management's response. If the auditor evaluates management's written response and finds areas of significant disagreement, then the auditor will explain the disagreement in the report. In general, this would be in the form of an appendix responding to management's response.

Audit release

The City Commission receives audit reports at regular meetings of the City Commission. The City Auditor releases reports when they are placed on the agenda for a City Commission meeting. When the City Manager's Office posts an agenda, they email all city staff and post a link to the agenda on the front of the city's main web page. The city provides an email subscription service where anyone can sign up on the city's web page for notifications of agendas. The City Auditor's Office web page also includes a link to each completed audit report.

After an audit is released to the City Commission, the audit and supporting work papers are open records (except any work papers that would be closed records under state law). Requests for work papers will go through the city's freedom of information officer.

The City Auditor also provides reports to external agencies if legally required or in circumstances when management is required to report to an external agency but has not done so. These circumstances would generally be related to fraud, non-compliance, or abuse. If the auditor provides reports to external agencies because management has not done so, then the auditor also provides information to the City Commission.

Record Retention

The City Auditor is responsible for maintaining audit reports and work papers. The auditor maintains final audit reports permanently and work papers for at least 5 years. After 5 years, work papers may be destroyed.

Follow-Up

City Code requires the City Auditor to follow up on reported findings within six months after issuing an audit “to determine that corrective action was taken and is achieving the desired results.”

About 5 months after releasing an audit, the City Auditor will follow-up with relevant management by asking for a written explanation of corrective action taken related to each recommendation and an opinion about whether the action is achieving the desired results. The auditor will ask management to address each recommendation and characterize each recommendation as: implemented, not implemented, in progress, or undetermined/pending.

The City Auditor will provide the follow-up information to the City Manager and City Commission. Management’s follow-up information will be released publicly.

If an audit doesn’t include any recommendations, then the follow-up process may not apply.

Fraud

If during an audit the City Auditor becomes aware of apparent abuse or illegal acts or indications of such acts that could affect the city, then the auditor confers with the Law Department Director. After conferring with the Law Department Director, the auditor determines what further actions to take. Further actions may include extending the audit work; reporting to law enforcement or investigative authorities; or withdrawing from or deferring further audit work.

Government Auditing Standards provide direction on reporting fraud and noncompliance and the City Auditor will review the audit standards in determining actions to take.

Among the questions the City Auditor will consider:

- Does sufficient and appropriate evidence support a conclusion that fraud or noncompliance took place or likely took place?
- Would the fraud or noncompliance be significant given the audit objectives?
- Would reporting the fraud or noncompliance compromise investigations or legal proceedings?
- Do laws, regulations, contracts or grants require management to report the problems to external parties?

Continuing Professional Education

The City Auditor completes 80 hours of continuing professional education in each two calendar year period (with at least 20 hours in each year and at least 24 hours of

continuing professional education directly related to the government environment). The auditor maintains documentation of completed continuing professional education.

Appendix A: City Code

ARTICLE 4A. OFFICE OF THE CITY AUDITOR

1-4A01 OFFICE OF CITY AUDITOR.

(A) There is hereby established the office of City Auditor, hereinafter "Auditor". The position shall be appointed by and report to the City Commission and shall examine and evaluate the activities of the City to assist City Commission members in the effective discharge of their duties. The Auditor shall be selected on the basis of experience and education suitable to the professional performance of internal municipal audits, including but not limited to audits of: the efficiency and effectiveness of City programs and services; City compliance with all applicable laws, regulations and requirements for the expenditure of public funds and the exercise of City authority pursuant to law; City compliance with internal controls and policies; and City compliance with generally accepted municipal standards for the performance of municipal services and programs. The Auditor shall not have any responsibility for the preparation of the annual audit of City finances, referred to as Comprehensive Annual Financial Report (CAFR). (Ord. 8060)

(B) All officers and employees of the City shall furnish the auditor with unrestricted access to employees, information and records (including automated data) within their custody regarding powers, duties, activities, organization, property, financial transactions, contracts and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide access for the auditor to inspect all property, equipment and facilities within their custody. Audits shall be conducted in accordance with the Standards for the Professional Practice of Internal Auditing published by The Institute of Internal Auditors, Inc., or when required by law, regulation, agreement, contract, or policy, in accordance with Government Auditing Standards issued by the Comptroller General of the United States, or other applicable professional standards such as the International Organization of Supreme Audit Organizations (INTOSAI). All audit reports issued by the auditor shall include a statement that the audit was conducted pursuant to the appropriate standards or state why standards were not followed. (Ord. 8060)

(C) The Auditor shall coordinate with the City Manager in creating an annual work program. The Auditor shall annually present the proposed work program of planned major audits and planned special projects to the City Commission. The City Commission may amend or alter the proposed work program as it determines appropriate. The Auditor may be directed to perform additional audits as resources allow. (Ord. 8060)

(D) Prior to public disclosure of an audit, a final draft of each audit report will be forwarded to the official responsible for the audited project or program and the City Manager for review and comment regarding factual content of the report. The responsible official and/or City Manager must respond in writing specifying agreement or disagreement with audit finding and recommendations, reasons for disagreement with findings and/or recommendations, plans for implementing solutions to issues identified, and a timetable to complete such activities. The response must be received by the Auditor within five (5) working days. The final audit report will include the views of the responsible official of the audited programs concerning the Auditor's finding, conclusions and recommendations, as well as planned corrective actions. If the responsible official does not respond within the specified timeframe, the Auditor will note that fact in the audit report. (Ord. 8060)

(E) All final audits prepared by the Auditor shall be received by the City Commission during a regular meeting of the City Commission. All final audits shall be public records pursuant to the Kansas Open Records Act and shall be posted on the City's website. No later than six months after an audit is issued, the auditor shall follow-up on reported findings to determine that corrective action was taken and is achieving the desired results. The auditor shall inform the City Manager

and the City Commission of the status of corrective actions taken by management responsible for supervision of the program activity, function, or organizational unit audited. (Ord. 8060)

Appendix B: City Ethics Policy

City of Lawrence
Administrative Policy

SUBJECT City Ethics Policy		APPLIES TO All City Officials and Employees	
EFFECTIVE DATE March 20, 1991	REVISED DATE		NEXT REVIEW DATE March 20, 2000
APPROVED BY City Commission		TOTAL PAGES 3	POLICY NUMBER AP-50

1.0 **Policy**

- A. The Lawrence City Commission recognizes that the proper workings of representative and democratic government require that public officials and employees be independent, impartial and responsible to citizens; that government decisions and policy be made in appropriate structures of government; that public office not be used for personal gain; and that the public has confidence in the integrity of its government.

- B. The policy of the City of Lawrence shall be to promote and further ethical conduct on the part of elected and appointed officials and city employees

2.0 **Coverage and Definitions**

A. Individuals Covered by the City Ethics Policy

This Ethics Policy shall apply to all elected officials, city employees, and appointed members of the city boards, authorities, committees or commissions. For purposes of this resolution, individuals covered by the Ethics Policy shall be referred to as public officers and employees.≡

B. Definition of Direct Financial Benefit

For the purpose of this Ethics Policy, the term “direct financial benefit” shall mean any monetary or material compensation or reward that is directly received by, or provided to, an individual or individual’s spouse covered by the Ethics Policy. A “direct financial benefit” must create a definite material conferment, not merely a theoretical betterment. “Direct financial benefit” shall not include: 1) compensation from the City of Lawrence; 2) benefits deriving to or

from not-for-profit organizations; 3) financial benefits which substantially inure to the community; or 4) a benefit to a public officer or employee from his or her employer, or spouse's employer, when the financial size of the employer significantly dilutes any individual financial benefit the public officer or employee will receive in regard to a city contract, transaction or action.

3.0 **Ethics Policy Guidelines**

All City public officers and employees shall observe the following guidelines:

- A. Refrain from voting, advocating or taking action on a City contract, transaction, regulatory action or any other action which will result in a direct financial benefit to the public officer or employee of his or her spouse. The intent of this subsection is that public officers and employees should not use their public position for private gain. A City contract bid under the City purchasing policy is excluded.

There are two examples which illustrate this guideline:

- 1. A public officer or employee should refrain from taking action on a City contract for the purchase of property or services when the officer or employee will receive a direct financial benefit from the provider of the property or service or is the provider of the property or service.
 - 2. A public officer or employee should refrain from advocating or voting on a particular topic or issue, if the outcome of such topic or issue will create or continue a direct financial benefit to the public officer or employee that is not enjoyed by the community at large.
- B. Uphold the Constitution, law and regulations of the United States, the State of Kansas, and the City of Lawrence and never be a party to their evasion.
 - C. Refrain from making any promise, private in nature, the performance of which would require him or her to act beyond the proper scope of the duties of his or her office or to act in a manner which would or could compromise the integrity of his or her public office or employment.
 - D. Refrain from engaging in any business with the government which is inconsistent with the conscientious performance of his or her governmental duties.

- E. Refrain from using any confidential information obtained in the performance of governmental duties as a means for making a private profit or gaining benefit; never reveal any information made known through his or her public office or employment which is by law confidential or by custom a protected right of privacy where revealing the information could affect adversely any citizen.
- F. At all times, display the highest level of integrity in performing his or her duties and never knowingly mislead or allow others to mislead the public or other governmental officials nor fail to disclose or report to appropriate officials any corruption wherever discovered.
- G. Stand as a representative of the government and the public trust and never intentionally act outside the scope of their authority in that representation nor allow themselves to be perceived as acting on behalf of the public or government when, in fact they are not.
- H. Refrain from assisting and representing the private interests of another before any City commission, board or agency when the public officer or employee has any official involvement with respect to the determination of the private interest before the commission, board or agency.

4.0 Abstaining from Participation

A public officer or employee should abstain from participation in the decision-making process, including discussion and voting, as necessary to avoid conflict with these guidelines, except that the public officer or employee may respond to questions or inquiries relating to the issue from which the individual abstains.

5.0 Application of City Ethics Policy

- A. This resolution is supplemental to any applicable federal, state, or city law or any applicable city policy.
- B. A copy of this resolution shall be provided to all current and new city governing body members, appointed officials and employees.
- C. The City commission may provide by ordinance for the removal of appointed city board, commission and authority members for violation of the ethics policy.

Appendix C: Independence Statement

Independence Statement

Project: _____

I have reviewed *Government Auditing Standards* July 2007 Revision. The general standard on independence is:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be independent.

In my opinion, my participation in this audit meets the independence standard.

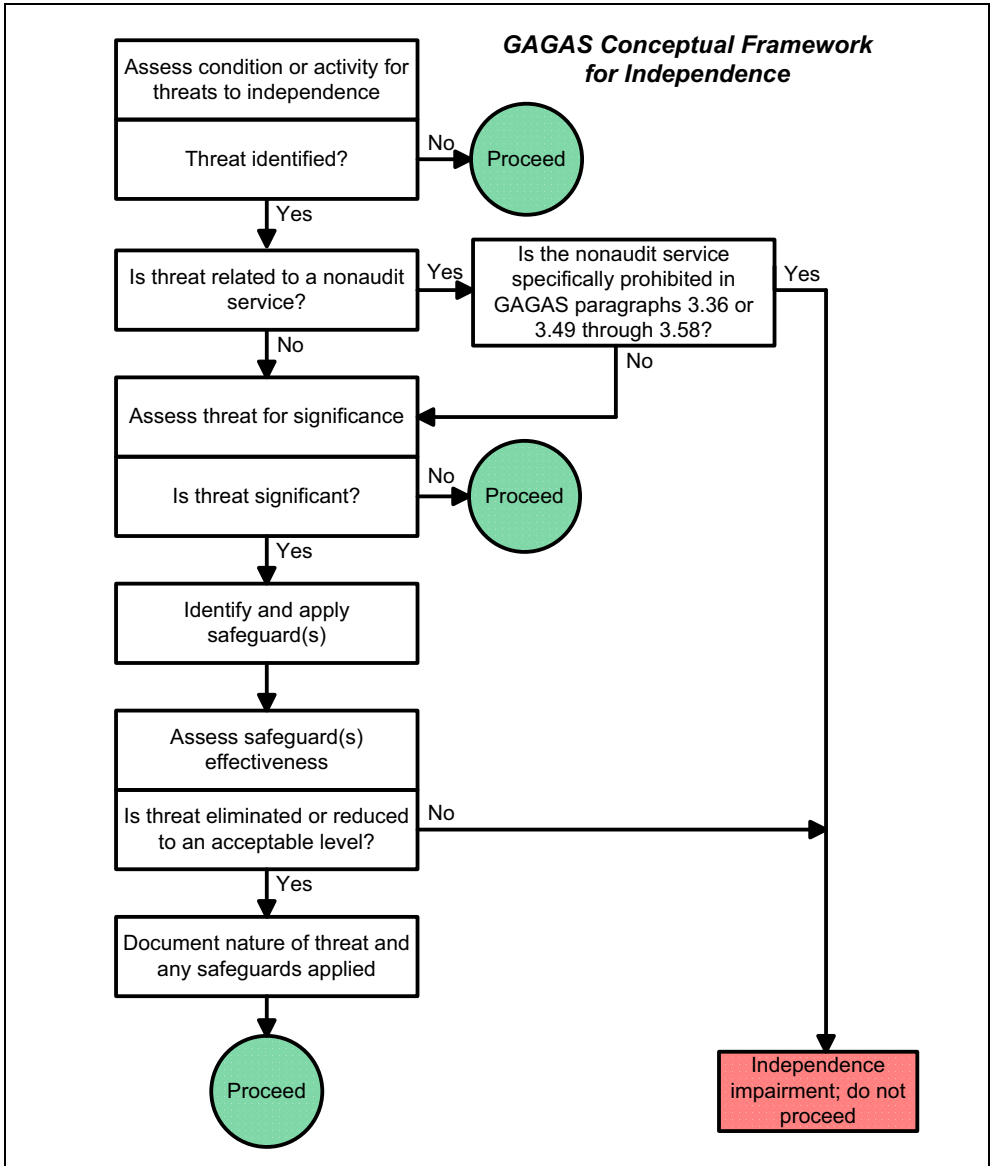
Signature: _____

Date: _____

Appendix D: Independence Flow Chart

Government Auditing Standards provide a conceptual framework for auditor independence.

GAGAS Conceptual Framework for Independence



Source: GAO.