

**REPORT ON THE
QUALITY ASSURANCE REVIEW
OF THE
SOLANO COUNTY AUDITOR-CONTROLLER
INTERNAL AUDITING DIVISION
JUNE 30, 1994**



**RODNEY A. DOLE
SONOMA COUNTY
AUDITOR-CONTROLLER**

**QUALITY ASSURANCE REVIEW
SOLANO COUNTY
INTERNAL AUDITING DEPARTMENT**

I. Introduction

A. Objectives

The primary objective of our quality assurance review was to determine whether the Internal Auditing Department of Solano County was in compliance with the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. Other objectives were to determine whether the Internal Auditing Department was in compliance with its charter, established audit policies and procedures, and as necessary, to provide recommendations for improving the internal audit function.

B. Scope

The scope of the review included:

- A self-study report (prepared by the Chief of Audits), which contained background information about the Internal Auditing Department, organizational status, operating environment and established departmental policies, procedures and practices.
- An auditee survey sent to Solano County and Special District management officials who had been audited during the fiscal year 1993-94, which solicited their responses concerning the scope, nature and quality of audits performed by the Internal Auditing Department.
- Interviews held with the Solano County Auditor-Controller, the internal auditing staff, the Solano County Assistant County Administrator, Solano County Court Executive Officer, and the Chief of the Vacaville Fire District. A conference with the Deputy Auditor-Controller and an interview questionnaire sent to the County's CPA firm of Coopers and Lybrand.
- A review of audit policies, procedures, practices and information used for managing the Internal Auditing Department.
- An examination of a sample of audit files completed for the fiscal year ended June 30, 1994.
- The fieldwork for our review began on January 4, 1995 and was completed on January 6, 1995.

II. Evaluation

A. Overall Opinion

The internal auditing department of Solano County **adequately complies** with the IIA's Standards for the Professional Practice of Internal Auditing.

This opinion means that there were conditions related to Independence, and Management of the Internal Auditing which could be enhanced to bring the internal audit division into full compliance with the Standards.

B. Summary

The official charter of the internal auditing department has been established as part of its policies and procedures manual. It defines the internal audit function, its authority, which includes full access to all documents and its responsibilities, which include the preparation and issuance of audit reports to appropriate individuals or departments. The charter however has not been presented for approval by the County board. Additionally, the auditor's independence may be enhanced when audit assignments are periodically rotated.

The internal auditing department has a staff of professionals with extensive experience and technical knowledge to carry out the internal audit function, authority and responsibilities with proficiency. Due professional care is apparent by the evidence of a review of internal controls whenever audit staff undertakes an audit assignment.

The chief of audits develops financial budgets and audit plans to ensure that the internal audit functions are sufficient to meet the needs of management. This includes objectives and goals, scope of work, staffing plans, audit schedules and follow-up activities. Audit assignments by internal audit staff include full reports on reviews of financial statements, compliance with laws and regulations, internal control and economical and efficient use of resources.

In their performance of audit work, the internal audit staff demonstrate professionalism and competence. Auditee survey questionnaires were sent to 28 auditees requesting their comments regarding the five general standards. For the 21 respondents, the overall rating was a 3.12 of a possible 4 (scale of 1-4 with 4 being excellent and 3 being good). Ratings of slightly less than good were related to the communication skills of the auditor, suggested audit areas, timeliness of the audit report, accuracy of the audit findings and effectiveness of the management of the division. A summary of auditee survey results and auditee comments were given to the Chief of Audits. The Chief of Audits may want to review these results with the audit staff as a means of enhancing certain audit processes.

The internal auditing division appears to be well managed, and the staff is encouraged, through professional training courses, to keep their audit skills and techniques current. An internal review however, has not been performed by members of the internal audit staff to appraise the quality of the audit work performed.

We believe this report contains recommendations which, if implemented, will build a more effective internal audit organization and bring it into full compliance with IIA Standards.

III. Conditions and Recommendations

This section contains our observations as they relate to the five general Standards: Independence, Professional Proficiency, Scope of Work, Performance of Audit Work, and Management of the Internal Auditing Department. For each standard, we identified the conditions observed, and where necessary, made recommendations for improvement which would also ensure full compliance with the Standards. In addition, we have identified certain enhancements for consideration even though the activity is in compliance with the relevant standard.

For those satisfactory conditions observed, no guidance is cited. For conditions where recommendations for improvements are made, relevant guidelines were cited which describe suitable means for implementing the applicable standards.

A. STANDARD 100 - INDEPENDENCE - INTERNAL AUDITORS SHOULD BE INDEPENDENT OF THE ACTIVITIES THEY AUDIT.

1. Condition Observed:

The Auditor-Controller of Solano County is an elected official, having been elected by the citizens of Solano County. The Standard for Independence under IIA is achieved when there are no personal or external impairments in the performance of audit work. The internal auditing division is an integral part of the Auditor-Controller, and the audit staff is under the direction of the Audit Chief who has sufficient authority to promote independence.

Recommendation:

None

III. Conditions and Recommendations (Cont.)

2. Condition Observed:

The internal audit division has drafted its official charter which defines its purpose, authority and responsibility and has been incorporated in the Audit Policies and Procedures Manual. The charter has not been submitted for approval by management and acceptance by the Board.

Standard Guideline:

The purpose, authority and responsibility for the internal audit division should be defined in a formal written document (charter). The Director should seek approval of the charter by management as well as acceptance by the board. The charter should: (a) establish the department's position within the organization; (b) authorize access to records, personnel and physical properties relevant to the performance of audits; and (c) define the scope of the internal auditing activities.

Recommendation:

The audit division's charter should be formalized by seeking the approval of the Auditor-Controller and acceptance by the Board of Supervisors.

Management's Response:

We agree with the condition noted. The audit charter will be submitted to the Auditor-Controller and the Board of Supervisors during fiscal year 1995-96.

3. Condition Observed:

Our interviews with audit staff and auditees revealed that an auditor may be assigned to the same audit for up to four consecutive years.

Standard Guideline:

Internal auditors should be objective in performing audits. Staff assignments of internal auditors should be rotated periodically whenever it is practicable to do so.

Recommendation:

To maintain the auditor's objectivity in the performance of audit work, audit assignments should be rotated among the audit staff more frequently than every four years.

III. Conditions and Recommendations (Cont.)

Management's Response:

We agree with the condition noted. Beginning with the Annual Audit Plan for fiscal year 1995-96, we will rotate audit assignments to the extent allowed given the experience and ability of the staff.

B. STANDARD 200 - PROFESSIONAL PROFICIENCY - INTERNAL AUDITS SHOULD BE PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE.

4. Condition Observed:

The audit division has established suitable criteria of education and experience for filling audit staff positions. Each member of the division is well qualified to practice the profession, maintain proficiency through continuing education and comply with the IIA's Code of Ethics in the performance of audit work.

Recommendation:

None

C. STANDARD 300 - SCOPE OF WORK - THE SCOPE OF THE INTERNAL AUDIT SHOULD ENCOMPASS THE EXAMINATION AND EVALUATION OF THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATION'S SYSTEM OF INTERNAL CONTROL AND THE QUALITY OF PERFORMANCE IN CARRYING OUT ASSIGNED RESPONSIBILITIES.

5. Condition Observed:

The management of the internal audit division provides general direction on the activities to be audited and the scope of the auditor's work. The majority of audits performed during the past year were financial and compliance audits of Special Districts. Other audits include the review of the organization's system of internal control, review for quality of performance and follow-up for various County departments and programs.

These activities fully comply with the standards.

Recommendations:

None

III. Conditions and Recommendations (Cont.)

- D. STANDARD 400 - PERFORMANCE OF AUDIT WORK - AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS AND FOLLOWING UP.

6. Condition Observed:

In the performance of audit work, our review revealed that audit workpapers document the planning of the audit, the examination and evaluation of information relevant to the audit objectives and scope of work, follow-up on certain reported audit findings and signed audit reports issued after the audit has been completed.

Recommendation:

None

- E. STANDARD 500 - MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT - DIRECTOR OF INTERNAL AUDITING SHOULD PROPERLY MANAGE THE INTERNAL AUDITING DEPARTMENT.

7. Condition Observed:

The Chief of Audits establishes a plan and audit work schedules which are flexible enough to provide for unanticipated requests of the internal audit staff. A written policies and procedures manual guides the audit staff in the performance of their audit work. Additionally, the audit chief constantly confers with the Auditor-Controller in matters relating to the division's goals and periodically reports the result of audits to the County Board.

Having been selected as qualified and competent individuals, the audit staff has maintained excellent job performance and has been provided with sufficient educational opportunities. These factors contributed to the internal audit division earning the trust and effective working relationship with all levels of management.

Recommendation:

None

III. Conditions and Recommendations (Cont.)

8. Condition Observed:

Our communication with the external auditors revealed that they are provided with the audit work schedule of the internal auditing division during their planning process and are not aware of any duplicated efforts. The audit division fully complies with external quality assurance reviews. An internal review, however, by members of the auditing staff has not been performed.

Standard Guidelines:

The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department. Internal reviews should be performed periodically by members of the internal auditing staff to appraise the quality of the audit work performed. These reviews should be performed in the same manner as any other internal audit.

Recommendation:

A qualified staff or review team should be selected by the Chief of Audits to perform a periodic formal internal review of the entire operation or certain functions of the audit division. A written report should be issued after the review has been completed.

Management's Response:

Although we have not conducted a formal internal review, we do maintain a quality assurance program. Each audit is reviewed to ensure achievement of audit objectives and adherence to applicable auditing standards. The review process also includes adherence to the Division's policies and procedures. In addition, we hold weekly staff meetings for the purpose of discussing audit and administrative issues which we feel lead to the enhancement of audit quality. The Division supervisor will begin conducting an auditee survey on an annual basis, at a minimum. We have no plans to conduct a complete internal review at this time.

We feel our existing efforts and the additional efforts toward enhancing our Audit Manual and conducting an auditee survey will greatly improve our quality assurance program. Furthermore, we will continue to participate in an external quality assurance review.