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Government Auditing Standards: The Board of County Commissioners Resolution No. 99-05 dated April 27, 1999 (See Chapter IB) provides that audits shall be conducted in accordance with *Government Auditing Standards* (GAGAS). <http://www.gao.gov/new.items/d07731g.pdf>

Chapter 1 of the standards describes the use and application of GAGAS. GAGAS provide a framework for conducting high quality government audits and attestation engagements with competence, integrity, objectivity, and independence. GAGAS contain requirements and guidance dealing with ethics, independence, auditors' professional competence and judgment, quality control, the performance of field work, and reporting. Audits and attestation engagements performed under GAGAS provide information used for oversight, accountability, and improvements of government programs and operations.

The Internal Audit Division is committed to achieving a high level of audit quality and we follow GAGAS in all of our audit work. Each auditor receives a copy of the *Government Auditing Standards* and is responsible for becoming familiar with and adhering to its requirements. Our internal quality controls described in Chapter IIG, which include completion of a Quality Assurance Checklist (Form 1), are designed to ensure compliance with GAGAS. In addition, Chapter IIIH provides that an external quality control review shall be conducted by the Association of Local Government Auditors (ALGA), tests our compliance with GAGAS every 3 years.

In accordance with OPM 08-08 issued December 21, 2007, each auditor is required to read the field work and reporting standards that apply to the specific type of audit: financial, performance, or attestation engagement before beginning each assignment. Auditors should consult with the Audit Manager to determine the type of audit and should indicate the type of assignment on the Monthly Project Reports as required by OPM 08-06 issued November 15, 2007

GAGAS defines the types of audits as follows:

- “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.” (GAS 1.22)
- “Attestation engagements result in an examination, a review, or an agreed-upon procedures report on a subject matter that is the responsibility of the other party.” (GAS 1.23)
- “Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, 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

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decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.” (GAS 1.25)

Chapters IIIE and IIIG of this audit manual refer to audit fieldwork and reporting standards, respectively, for financial audits and attestation engagements, but do not restate them since the Internal Audit Division conducts mostly performance audits. These chapters do summarize GAGAS requirements applicable to all types of assignments, including specific requirements for performance audits.

Stating Compliance with GAGAS in the Audit Reports

Reports on audits and attestation engagements issued by the Internal Audit Division shall include either an unmodified or modified GAGAS compliance statement in accordance with GAS 1.12 (a) and (b). When auditors do not comply with any applicable GAGAS requirement, auditors shall comply with GAS 1.13 and (1) assess the significance of noncompliance to the audit objectives, (2) document the assessment in the workpapers, along with their reasons for not following the requirement, and (3) determine the type of compliance statement. The auditors’ determination will depend on the significance of the requirements not followed in relation to the audit objective. When an applicable GAGAS requirement is not followed on a performance audit, this must be disclosed in the report as required by GAS 8.31.

GAGAS do not cover professional services other than audits or attestation engagements. These professional services are known as non-audit services and are discussed in GAS 1.33, 3.25-3.30. Therefore, auditors must not report that non-audit services were conducted in accordance with GAGAS. OPM 08-04 issued November 13, 2007 contains the Internal Audit Division’s requirements for recording non-audit services and applying appropriate safeguards to ensure that there is no independence impairment in fact or appearance.

Relationship Between GAGAS and Other Professional Standards

GAS 1.15 states that “For financial audits, GAGAS incorporate the American Institute of Certified Public Accountants (AICPA) field work and reporting standards and the related Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS. For attestation engagements, GAGAS incorporate the AICPA general standard on criteria, and the field work and reporting standards and the related Statements on Standards for Attestation Engagements (SSAE) unless specifically excluded or modified by GAGAS.” GAS 1.16 allows auditors to use other professional standards in conjunction with GAGAS.

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Ethical Principles: The Internal Audit Division shall follow Chapter 2 of the July 2007 Revision to the *Government Auditing Standards*, which provide the ethical principles that are expected of audit organizations and auditors who conduct their work in accordance with the standards. The ethical principles that guide the work of auditors are: a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources, and position; and e. professional behavior (GAS 2.01, 2.04-2.15).

- The public interest – Auditors must maintain a high level of integrity, objectivity and independence in discharging their professional responsibilities in order to serve the public’s interest and honor the public’s trust.
- Integrity – Public confidence in government is maintained and strengthened by auditors’ conducting their work with an attitude that is objective, fact-based, nonpartisan and non-ideological with regard to audited entities and users of audit reports.
- Objectivity – The credibility of government auditing is based on auditors’ objectivity in discharging their professional responsibilities. Objectivity includes being independent, maintaining an attitude of impartiality, having intellectual honesty and being free of conflicts of interest.
- Proper use of governmental information, resources and position – 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. As a result, 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. Likewise, protecting, conserving and using government resources appropriately are an important element in the public’s expectations for auditors. Misusing the position of an auditor for personal gain violates an auditor’s fundamental responsibilities.
- 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. Professional behavior includes auditors putting forth an honest effort in performance of their duties and professional services.

In addition, the Internal Audit Division subscribes to all ethics demanded of County employees in accordance with Section 1-7.1 of the *Frederick County Code*.

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Section 1-7.1-4 contains the following conflict of interest requirements.

All Frederick County officials and employees shall not:

(A) Act on behalf of the county in any matter which would, to their knowledge, have a direct financial impact, as distinguished from the public generally, on them, their spouse, parent, parent-in-law, child, brother, sister, or a business entity with which any of the aforesaid are affiliated. (If a disqualification pursuant to this subsection leaves any body with less than a quorum capable of acting, or if the disqualified official or employee is required by law to act or is the only person authorized to act, the disqualified person shall disclose the nature and circumstances of the conflict publicly, and then to the Commission as soon as practical, and may participate or act.)

(B) Hold or acquire an interest in a business entity that has or is negotiating a contract of \$1,000 or more with the county or is regulated by their agency, except as exempted by the Commission pursuant to § 1-7.1-7 of this chapter;

(C) Be employed by a business entity that has or is negotiating a contract of more than \$1,000 with the county or is regulated by their agency, except as exempted by the Commission pursuant to § 1-7.1-7 of this chapter;

(D) Hold any outside employment relationship that would impair their impartiality or independence of judgment;

(E) Represent any party, for a contingent fee, before any county body;

(F) Solicit any gift or accept gifts from any person that has or is negotiating a contract with the county, or is regulated by their agency, except when these gifts would not present a conflict of interest as determined by the Commission. This subsection does not apply to the following unsolicited gifts:

- (1) Meals and beverages;
- (2) Ceremonial gifts or awards which have insignificant monetary value;
- (3) Gifts of nominal value or trivial items of informational value;
- (4) Reasonable expenses for food, travel, lodging, and scheduled entertainment of the official or the employee for a meeting which is given in return for participation in a panel or speaking engagement of the meeting;
- (5) Gifts of tickets or free admission extended to a county elected official to attend a professional or intercollegiate sporting event or charitable, cultural, or political event, if the purpose of this gift or admission is a courtesy or ceremony extended to the office;

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(G) Within 1 year following termination of Frederick County service, act as compensated representatives of another in dealing with the county in connection with any specific matter in which they participated substantially as a county official or employee;

(H) Intentionally use the prestige of their office or privileged information acquired in their official county position for their own private gain or that of another. The performance of usual and customary constituent services, without additional compensation, does not constitute the use of the prestige of office for an official's or employee's private gain or that of another.

(Ord. 82-5-249, 4-13-1982)

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Confidentiality: All information, reports, documents, etc., passing through the Internal Audit Division concerning auditees are to be treated as confidential to the extent allowed by the Public Information Act (PIA). <http://www.oag.state.md.us/Opengov/pia.htm>

This also means that all audit problems, findings, conclusions, and recommendations are to be discussed only with the IIAA, authorized representatives of the auditee or authorized representatives of the auditee's external auditor. Exceptions to this rule must be authorized by the IIAA or authorized representatives of the auditee. The word "all," underlined above, is emphasized because even the most inconsequential information may become troublesome to an auditee, the County, or the IIAA when taken out of context or misinterpreted by an unauthorized party.

While our final reports and work papers are subject to the PIA, it is the Internal Audit Division's intention to take precautions to avoid misinterpretation of the information by external parties. Requests for such information should be handled in accordance with Chapter IVA, Public Access to Records.

Draft reports, including Discussion Drafts, are subject to change and are, therefore, not considered "final" until a response is received from the auditee and the proposed final report is approved by the IIAA. Reports in the draft stage are not subject to the PIA. Draft reports shall be stamped "Confidential" before being distributed to authorized parties and shall not be shared with any other parties without the approval of the Internal Audit Division Director. (See Chapter IIIH, Audit Reporting Policies and Procedures)

Since working papers and final reports are considered public information, our policy is to refrain from using names of individuals in our working papers and reports in connection with noted deficiencies and, rather, state only the position title of the individual(s) involved. Our goal is to obtain corrective action for deficiencies, not to place blame on any individual. In addition, it is important to maintain the trust and cooperation of auditees, which cannot be accomplished if they have concerns regarding retribution due to information they provide to us.

In verbal communications with management during the audit or exit interview, auditors should use discretion in revealing the name of a staff person relative to a deficiency noted. Our policy is to not become involved in disciplinary action and, as such, care must be taken not to imply to management that specific individuals are responsible. The above, however, applies only to deficiencies involving lack of adherence to policies and procedures, and not to illegal acts. If an auditor is reasonably certain that an illegal act has occurred, it should be reported to the Internal Audit Division Director, who will take appropriate action.

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In cases where certain pertinent information is prohibited from disclosure in the audit report due to federal, state or local laws or regulations, the report should state the nature of the omitted information and the requirement that makes the omission necessary. If necessary, an opinion from the County Attorney's Office should be obtained as assurance that a valid requirement for omission exists. (See Chapter III I, Report Distribution)

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Independence: GAGAS Chapter 3, General Standards, emphasize, among other things, the independence of the audit organization and its individual auditors. GAGAS provide that “In all matters relating to the audit work, the audit organization and the individual auditors, whether government or public, must be free from personal, external and organizational impairments to independence, and must avoid the appearance of such impairments of independence.” (GAS 3.02) This policy and OPM #09-06, Non-Audit Services and Revised Certificates of Independence, issued October 31, 2008, establish the Internal Audit Division’s internal quality control system to ensure compliance with the GAGAS Independence standards.

If there is a personal, external, or organizational impairment on an audit, the Internal Audit Division will attempt to remove the impairment. If an impairment cannot be removed, the Internal Audit Division shall promptly consult with the IIAA to consider not performing the work. The Internal Audit Division shall decline to perform the work unless there is a legislative requirement or other reason where the work cannot be declined. In those cases, the Internal Audit Division shall disclose the impairment in the scope section of the written audit report and the GAGAS compliance statement will be modified as required by the standards. (GAS 3.04, 3.09, 3.11, 1.12, 1.13)

If an impairment is identified after issuance of a report, the Internal Audit Division will assess the impact of the impairment on the audit. If the Internal Audit Division concludes that it did not comply with GAGAS, it will promptly notify the IIAA, determine the impact on the audit report, and notify appropriate parties in writing about the independence impairment and the impact on the audit. (GAS 3.06)

Personal Impairments

GAGAS require that “Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information.” (GAS 3.03) GAGAS also require audit organizations to “stress the importance of independence and the expectation that auditors will always act in the public interest.” (GAS 3.08e)

Each auditor within the Internal Audit Division must comply with GAGAS independence requirements. Chapter IIB, Ethical Principles, also requires that auditors comply with GAGAS ethical principles and Section 1-7.1 of the *Frederick County Code*, which contains the County’s conflict of interest requirements.

Operating Procedures Memorandum (OPM) 08-07 issued December 14, 2007 established procedures for each auditor to comply with GAGAS independence requirements. The OPM established a Certificate of Independence prior to the start of each assignment that began on or after January 1,

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2008. It updated the Internal Audit Division’s procedures for identifying, reporting, and promptly resolving any impairment to auditors’ independence as required by GAGAS (GAS 3.08-3.11). OPM 08-07 requires that if the auditor is not independent and will not sign the certification, the auditor is required to attach an explanation in writing as to why the auditor believes he or she is not independent. The Audit Manager, in consultation with the Audit Director, shall resolve the issue. The Certificate of Independence states that a false certification can lead to disciplinary action. (GAS 3.08d)

The OPM also established a procedure for auditors, when using the work of a specialist, to assess the specialist’s ability to perform the work and report results impartially. The procedure requires specialists to complete a Certificate of Independence-Specialist form before beginning work on an audit. (GAS 3.05) If the specialist’s independence is impaired, the auditors shall not use the specialist’s work.

OPM 08-07 was communicated to all auditors and the Certificates of Independence were added to the standard work paper index. (GAS 3.08b) The Audit Manager and Audit Director are responsible for monitoring compliance with this procedure on every assignment through supervisory and quality control reviews. (GAS 3.08c) OPM #09-06 revised the Certificate of Independence form.

External and Organizational Impairments

GAGAS require audit organizations to be free from external impairments to independence. Factors external to the audit organization may restrict the work or interfere with auditors’ ability to form independent and objective opinions, findings and conclusions. GAS 3.10 provides examples of external impairments such as unreasonable restrictions on time allowed to complete an audit or issue a report. OPM 08-07 requires auditors to notify the Audit Manager and Audit Director immediately to resolve any appearance of an independence impairment, any conflict, or any uncertain circumstances.

GAGAS also require that “Whether reporting to third parties externally or to top management within the audited entity internally, audit organizations must be free from organizational impairments to independence with respect to the entities they audit.” (GAS 3.12) In addition, GAS 3.13 states “external audit organizations can be presumed to be free from organizational impairments to independence when the audit function is organizationally placed outside the reporting line of the entity under audit and the auditor is not responsible for entity operations.”

The Internal Audit Division maintains its independence, free from external impairments, by reporting directly to the IIAA, established as an independent agency of Frederick County (Chapter 1B, Legal Basis). The IIAA has the sole authority to approve the Internal Audit Division’s annual work plan and all requests for audits or studies submitted by the County Commissioners or

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department heads. It is IIAA's policy to reject requests that are in conflict with independence requirements contained in the *Government Auditing Standards*. Frederick County Code Sections 2-7-69 and 2-7-70 provide the Internal Audit Division access to records and materials needed to perform audits (Chapter 1A, Statement of Authority and Responsibility).

Non-Audit Services

GAGAS require audit organizations that provide non-audit services (professional services other than audits or attestation engagements) to establish policies procedures and evaluate whether providing the services creates an impairment to independence in fact or appearance with respect to the entities they audit. (GAS 1.34, 3.02, 3.20, 3.21, 3.23)

GAGAS provide the following two overarching principles that apply when assessing the impact of performing a non-audit service for an audited program or entity: (1) audit organizations must not provide non-audit services that involve performing management functions or making management decisions and (2) audit organizations must not audit their own work or provide non-audit services in situations in which the non-audit services are significant or material to the subject matter of the audits. (GAS 3.22) The extent or nature of the advice must never result in the auditors making management decisions or performing management functions.

The Internal Audit Division only provides non-audit services that do not impair auditor independence, as described in Sections 3.26 and 3.27 of the *Government Auditing Standards*. These services typically involve following-up on prior audit recommendations, conducting investigations, and providing technical advice based on an auditor's technical knowledge and expertise and do not require supplemental safeguards. (GAS A3.02, A3.03k) When performing non-audit services such as providing technical advice, the Internal Audit Division shall communicate, as appropriate, with the management officials requesting the audit that the scope of the work performed does not constitute an audit under GAGAS. (GAS 1.33)

If the Internal Audit Division is requested to perform non-audit services that would impair our ability to meet either or both of the overarching principles for certain types of audit work, the Internal Audit Division will inform the requestor and the audited entity that performing the non-audit services would impair the auditors' independence with regard to subsequent audit or attestation engagements. (GAS 3.24)

OPM 08-04 issued November 13, 2007 established procedures to ensure compliance with GAGAS requirements on non-audit services contained in the July 2007 GAGAS revision. This procedure includes determining the type of non-audit services as described in GAS 3.25-3.29, documenting

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non-audit services provided, and determining what supplemental safeguards will be taken, when required. (GAS 3.30)

In addition, OPM 09-06 issued October 31, 2008 established a procedure to ensure that the lead auditor checks the Non-Audit Services log before starting each audit or attestation engagement to determine if any non-audit services have been performed, and if there are any safeguards that need to be taken relate that must be considered and brought to the attention of the Audit Manager and Audit Director. OPM 09-06 revised the Certificate of Independence (OPM 08-07 Exhibit 1) on October 31, 2008 to include a statement that the auditor does not have an independence issue because of prior non-audit services they performed. If there is an independence issue, this must be brought to the attention of the Audit Manager and Audit Director in accordance with OPM 08-07.

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Professional Judgment: GAGAS require using professional judgment in planning and performing audits and attestation engagements and in reporting the results. (GAS 3.31-3.39)

The Internal Audit Division shall comply with these requirements, which state in part:

Professional judgment includes exercising reasonable care and professional skepticism. (GAS 3.32)

- 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 critical assessment of evidence. It includes a mindset in which auditors assume neither that management is dishonest nor of unquestioned honesty.
- Using the auditors’ professional knowledge, skills, and experience to diligently perform, in good faith and with integrity, the gathering of information and the objective evaluation of the sufficiency and appropriateness of evidence is a critical component of audits. Professional judgment may involve collaboration with other stakeholders, outside experts, and management in the audit organization. (GAS 3.33-3.34)
- Using professional judgment is important in determining the required level of understanding of the audit subject matter and related circumstances. (GAS 3.36)
- Using professional judgement to consider the risk level of each assignment and the sufficiency and appropriateness of evidence to be used to support audit findings, conclusions and recommendations. (GAS 3.37)
- Auditors should document significant decisions affecting the audit’s objectives, scope, methodology, findings, conclusions, and recommendations resulting from professional judgment. (GAS 3.38)

As stated in Chapter IIA, Government Auditing Standards, “The Internal Audit Division is committed to achieving a high level of audit quality and we follow GAGAS in all of our audit work. Each auditor receives a copy of the *Government Auditing Standards* and is responsible for becoming familiar with and adhering to its requirements.” The Audit Manager and Audit Director shall be involved throughout the audit, and their reviews of work papers and reports, shall ensure that the audits are performed using sound professional judgment and in compliance with GAGAS and internal procedures. The IIAA shall review reports, as appropriate, prior to issuance and the Internal Audit Division shall seek professional technical guidance from the IIAA, as needed, to ensure that sound professional judgment is used. (See Chapter IIG, Internal Quality Control)

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Competence: GAGAS require that the staff assigned to perform the audit or attestation engagement must collectively possess adequate professional competence for the tasks required. (GAS 3.40-3.42)

The Internal Audit Division shall comply with GAGAS competence requirements. (GAS 3.40-3.49)

- The Audit Manager, in consultation with the Audit Director, identifies skills necessary to conduct a particular audit or scope of audits to be performed and assigns staff accordingly. (GAS 3.41) The Director is responsible for ensuring that staff assigned to conduct an audit or attestation engagement under GAGAS collectively possesses the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment. (GAS 3.43) Outside consultants are used when specific technical skills, such as skills to audit IT systems, are needed.

- As required by GAGAS, the Internal Audit Division has a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. (GAS 3.41)

-The Internal Audit Division follows the Frederick County Government Human Resources Policies and Procedures Manual, Section 2, Recruitment/Hiring process. The Internal Audit Division routinely reviews and updates requirements for education, experience, and technical knowledge. These changes are reflected in specific job descriptions and duties, which are used in recruiting for a position.

-The Internal Audit Division continuously develops its audit staff by providing Continuing Professional Education (CPE) in accordance with GAS 3.46-3.48. 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. Auditors 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 two-year period. (GAS 3.46)

-OPM 08-09 issued February 1, 2008 established Individual Learning Plans (ILPs) to better plan for professional development and training. ILPs are prepared on a fiscal year basis. As a quality control, the Internal Audit Division's Administrative Coordinator is responsible for tracking CPEs, maintaining documentation of CPEs completed, and providing CPE reports to the Director. The Audit Manager shall assist the Director, as needed, to ensure the accuracy of the CPE record and to monitor and ensure compliance with GAGAS CPE requirements. (GAS 3.48)

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-Each Internal Audit Division staff member is given an interim and final personnel evaluation as required by Frederick County Government Human Resources Policies and Procedures Manual, Section 9, Pay for Performance. It should be noted that these evaluations are considered confidential and the County's Human Resources Division will only release them to those who have access to personnel files as stated in the Frederick County Government Human Resources Policies and Procedures Manual, Section 4, Employment. All other personnel may not have access to the evaluations or anything in the personnel files unless the employee releases information in writing.

- External specialists assisting in performing a GAGAS assignment should be qualified and maintain professional competence in their areas of specialization, 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. (GAS 3.49) GAGAS require that internal specialists, who are part of the organization and perform as party of the audit team should comply with GAGAS, including the CPE requirements. The Internal Audit Division does not have internal specialists. When outside consultants are used, their knowledge, skills, and experience are evaluated through the selection process.
- Auditors performing financial audits or attestation engagements should be knowledgeable in the relevant generally accepted accounting principles (GAAP), AICPA generally accepted auditing standards, AICPA attestation standards, Statements on Auditing Standards (SAS), Statements on Standards for Attestation Engagements (SSAE), and the application of these standards. If auditors use GAGAS in conjunction with any other standards, they should be knowledgeable and competent in applying those standards. (GAS 3.44-3.45) Internal Audit Division auditors are required to be knowledgeable of all relevant standards and training is provided through formal training courses and webinars.

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Internal Quality Control: GAGAS require that each organization performing audits or attestation engagements must:

- Establish a system of quality control that is designed to provide the organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. (GAS 3.50.a)
- Document its quality control policies and procedures and communicate those policies and procedures to its personnel. (GAS 3.52)
- Document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures. (GAS 3.52)

This chapter describes the Internal Audit Division's quality control policies and procedures designed to monitor the quality of work to provide the Division and IIAA reasonable assurance that the auditors comply with professional standards and applicable legal and regulatory requirements. (GAS 3.50.a.) Each staff member has a copy of this manual which they are required to follow. (GAS 3.52) Section f. Monitoring of Quality in this chapter describes the Internal Audit Division's quality control policies and procedures and the requirement to maintain documentation to show evidence of compliance. (GAS 3.52)

GAGAS also require that an audit organization include policies and procedures in its system of quality control that collectively address: (a) leadership responsibilities for quality within the audit organization, (b) independence, legal, and ethical requirements, (c) initiation, acceptance, and continuance of audit and attestation engagements, (d) human resources, (e) audit and attestation engagement performance and reporting, and (f) monitoring of quality. (GAS 3.53)

a. Leadership Responsibilities for Quality

Chapter IA, Statement of Authority and Responsibilities, states that the Internal Audit Division, under the direction of the IIAA, is responsible for ensuring that audits are performed in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The Audit Director and Audit Manager are responsible for ensuring audit quality.

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b. Independence, Legal, and Ethical Requirements

Policies and procedures relating to Independence are included in Chapter IID, Independence. Legal and Ethical requirements are included in Chapter IIB, Ethical Principles.

c. Initiation, Acceptance, and Continuance of Audit and Attestation Engagements

Policies and procedures for initiating audits and attestation engagements are included in Chapter IIIC, Initiating the Audit. Regarding the acceptance of audits and attestation engagements, Chapter IA, Statement of Authority and Responsibility, states “Requests for audits deemed to be politically motivated, not within the scope as previously described or, due to their technical nature, are considered to be beyond the expertise of the internal audit staff will not be approved for performance.” Chapter IIID, Audit Planning, provides policies and procedures for continuing or discontinuing audits or attestation engagements.

d. Human Resources

Chapter IIF, Competence, contains the Internal Audit Division’s policies and procedures to ensure that its staff complies with GAGAS competence requirements.

e. Audit and Attestation Engagement Performance and Reporting

Policies and procedures for Audit and Attestation Engagement Performance and Reporting are included in Chapter IIID, Audit Planning; Chapter IIIE, Audit Fieldwork Standards; Chapter IIIF, Audit Fieldwork Policies and Procedures; Chapter IIIG, Audit Reporting Standards; and Chapter IIIF, Audit Reporting Policies and Procedures.

f. Monitoring of Quality

The Internal Audit Division monitors the quality of audits and attestation engagements through (1) supervisory review, (2) independent referencing of reports, (3) completion of the Quality Assurance Checklist, and (4) the Audit Director’s annual review to identify any systemic issues needing improvement.

Supervisory Review

The Audit Director, under the guidance of the IIAA, is responsible for the quality of work. The Audit Manager, as first-line supervisor of staff, assists the Director in ensuring the quality of work.

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The Audit Manager is responsible for providing on-going technical guidance to staff and assistants, if any, and reviewing their work throughout the audit, attestation engagement, or non-audit services¹. The Audit Manager may assign a Senior Auditor to assist in providing technical guidance to staff and signing-off on their workpapers.

Supervision includes:

- Review of the audit announcement memo
- Attendance at entrance conferences and exit conferences
- Periodic meetings with staff to discuss the status of the audit or attestation engagement
- Review of Monthly Project Reports (See OPM 08-06 as amended)
- Review of workpapers at the end of planning to discuss potential risk exposure, refine audit objectives, or decide not to proceed into testing if it is not necessary
- Review of audit program for the testing phase
- Review of workpapers at the end of testing
- Message meetings to review finding outlines and the overall message of the report (OPM 09-02), and
- Review of discussion drafts, drafts, and final reports

OPM 08-02, Supervisory Review, issued on October 19, 2007 established a new procedure to ensure that workpapers are promptly reviewed and that such reviews are documented. The OPM requires that all working papers, or series of working papers, have evidence of supervisory review before the Discussion Draft is issued. In addition, the Audit Manager shall maintain documentation of other supervisory reviews such as workpaper review notes and supervisory reviews of reports. Such documentation shall be available for review by the Audit Director and peer review team to enable an evaluation of the Internal Audit Division's quality control policies and procedures. (GAS 3.52)

In addition, OPM 09-02, Message Meeting, issued on September 11, 2008 established a procedure to hold Message Meetings with the Audit Manager and Audit Director at the completion of audit testing

to discuss the overall message of the report. Message Meetings will be used to get the Audit Manager and Audit Director's buy-in on the report before writing starts. Staff should document these meetings. If the Director determines that Message Meetings are not needed, the lead auditor shall document that decision in the workpapers.

Also, as stated in Chapter IIIH, Audit Reporting Policies and Procedures, proposed final reports, with the exception of financial statement reports provided to the County and issued to a State

¹ The Internal Audit Division requires supervisory review of all work, including non-audit services. However, GAGAS do not cover non-audit services.

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agency, are submitted to the IIAA for approval before issuance. The IIAA, therefore, reviews the proposed reports and, the Internal Audit Division makes changes to the report before issuance, if needed.

Independent Referencing of Reports

OPM 08-05 issued November 13, 2007 establishes quality control over reports by requiring a staff member who did not work on the assignment to independently verify that the proposed report is accurate and agrees with underlying support contained in the workpapers. The referencing process must be completed before issuance of the draft and before the proposed final report is presented to the IIAA for approval.

Quality Assurance Checklist (See Form 1)

For each audit or attestation engagement, the lead auditor must complete and sign the Quality Assurance Checklist to certify that work performed complies with GAGAS and internal procedures contained in the Audit Manual prior to issuance of the draft report. The checklist incorporates Section III, Review of Audit/Engagement Documentation, included in the Association of Local Government Auditors' (ALGA) Peer Review Guide (2008), which was based on the July 2007 revision to the *Government Auditing Standards* issued by the Comptroller General of the United States. The checklist should not be used for non-audit services such as follow-up reviews or investigations, since GAGAS does not apply to such assignments, or for audit work done in support of external auditors where we do not issue the report.

Audit Director's Annual Review

GAGAS require that the audit organization analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement. (GAS 3.54)

To comply with this standard, the Audit Director will conduct an annual review of the results of monitoring and provide a report to the IIAA after the end of each calendar year. The Director shall review audit and attestation engagement reports issued in the past calendar year and will examine work papers for evidence of supervision and quality control. The Director shall also review supervisory review notes and independent referencer's comments and their resolution. The report shall summarize the results of the review and include recommendations and actions taken or planned to address the recommendations. The results of the review, and actions that need to be taken, shall be communicated to the staff. The Audit Director's annual reviews shall be made available to peer reviewers to show compliance with GAS 3.54.

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External Peer Review: GAGAS require that each organization performing audits or attestation engagements must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. (GAS 3.50b, 3.55) The review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review, the reviewed audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the audit organization with reasonable assurance of conforming to applicable professional standards. (GAS 3.55, 3.56)

Frederick County Resolution 99-05, Paragraph 7, requires an external quality control review at least once every 3 years by an organization not affiliated with Frederick County Government, Frederick County Public Schools, or Frederick Community College. (Chapter IB-Legal Basis)

Every 3 years, the Internal Audit Division Director shall include funds for an external peer review in its budget request and request the Association of Local Government Auditors (ALGA) to conduct the review. If for any reason a peer review cannot be conducted within the 3-year timeframe, the Division Director shall promptly notify the IIAA and request and obtain an extension from the United States Government Accountability Office (GAO) for meeting the peer review requirement.

GAGAS require an external audit organization to make its most recent peer review report publicly available. (GAS 3.61) The Internal Audit Division's policy is to make all peer review reports available to the public by posting them on the Division's web site. Upon receipt of the ALGA peer review report, the Division Director shall provide all IIAA members with a copy of the peer review report, and post it on the Division's website. <http://www.co.frederick.md.us/index.asp?nid=1191>

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Accomplishment Reporting: It is essential that the Internal Audit Division track accomplishments throughout the year to identify its success in completing the annual audit plan. The number of reports issued should not be the sole measure of success, but rather the management improvements and cost savings that were a result of the audits.

At each IIAA meeting, the Internal Audit Division Director or Manager shall provide a monthly status report that shows the status of completion of the annual audit plan; a comparison of hours budgeted to hours used on each assignment; and a breakdown of total hours budgeted and used by direct hours, leave hours, and indirect hours. The report shall also include a status of current assignments, assignments completed, and reports issued since the last meeting summarizing audit results, management improvements, and cost savings, if any.

After the end of Fiscal Year 2009, and each fiscal year thereafter, the Internal Audit Division Director shall provide an annual report to the IIAA summarizing the accomplishments of the division. The report shall identify the audit reports issued and the cost savings and management improvements that have occurred as a result of the audit reports. The annual report should also include accomplishments that occurred in the fiscal year that related to audit reports issued in prior periods. A primary source of this information is the monthly status reports provided to the IIAA and the Recommendations and Accomplishment Log established by OPM 08-04 dated December 17, 2007. The report shall also include the percent of audit recommendations implemented and the percent of auditor direct time.

A significant measure of the success of the Internal Audit Division is its success in undergoing a peer review by the Association of Local Government Auditors (ALGA) every 3 years as required by *Government Auditing Standards*. This process is further described in Chapter IIG, External Quality Control.