



FISCAL POLICY MANUAL

POLICY IA-5: Policy for Approval Levels - Audit Reports
APPROVED: Board of Supervisors
AUTHORITY: Auditor-Controller-Treasurer-Tax Collector (ACTTC)
ISSUE/REVISED DATE: July 16, 2010

I. PURPOSE

Determine appropriate review and approval of audit reports issued by the ACTTC.

II. POLICY

The Internal Audit Division of the ACTTC shall adhere to auditing standards in proper review and approval of audit reports and work papers. All audit reports and work papers should be properly reviewed by a senior auditor, supervising auditor, audit manager and when necessary the Assistant Auditor Controller. All audit reports are to be approved by the entity's governing body.

A. SCOPE OF ACTIVITIES

The Internal Audit Division of the ACTTC is established within the administration of the County of Sonoma to function independently of management for the purpose of examining and evaluating the adequacy and effectiveness of management operations, controls, and reporting of financial and operational performance. To this end, the Internal Audit Division will provide management and the Board of Supervisors with analyses, appraisal of financial and operational results, and recommendations concerning the activities examined. Additionally, they will execute the independent audit function charged by law or convention to the Auditor-Controller-Treasurer-Tax Collector.

Many of the audit engagements generate an audit report which is reviewed by the hierarchy within the audit division. Each audit report and accompanying work papers are reviewed for the following:

1. Meet the objectives of the engagement letter
2. Use of applicable accounting and auditing standards
3. Financial Statements are presented properly
4. Reviewed for content (MD&A, Notes to the Financial Statements and management letter).
5. Submitted properly to the governing body with entity's response to audit findings where applicable.

B. AUTHORITY

Subject to the approval of the Board of Supervisors, the Internal Audit Division is authorized to:

1. Decide on the nature, extent and timing of audits;
2. Enter all premises of the departments within the County of Sonoma or its component units; have access to and inspect all documents and records unless legally restricted;
3. Expect any manager, officer, or department head of the County of Sonoma or its component units to supply such information and explanations as may be needed; and
4. Have discussions with line managers and employees of the County of Sonoma and its component units at any reasonable time.

C. ORGANIZATIONAL REPORTING

The Internal Audit Division, under the direction of the Internal Audit Manager, is functionally responsible to the Board of Supervisors, who act as the Audit Committee, and reports administratively to the Assistant Auditor-Controller. The intent of this dual relationship is to establish auditor independence by reporting directly to the Board of Supervisors, while emphasizing executive-level teamwork among the Internal Auditors, the Auditor-Controller-Treasurer-Tax-Collector and senior management.

All audits and other engagements undertaken by the Internal Audit Division will result in an audit report or letter of findings and recommendations. The report will be directed to the person(s) who initiated the audit engagement (normally the auditee). In the event of a significant audit finding or a material weakness, a response from the auditee will be required within a time limit determined by the policies of the Internal Audit Division.

The audit report and client response will ultimately be submitted to the Board of Supervisors for their approval.

The Board of Supervisors will receive and accept all audit reports prepared by the Internal Audit Division except for those audit reports for those entities under local boards.

Informational copies will be provided to the Board of Supervisors of audit reports prepared for other governmental entities under local boards, such as special districts within the County of Sonoma.

D. INTERNAL AUDITOR INDEPENDENCE – Professional Standards and Policy

California Government Code Section 1236 requires that auditors conduct their activities under the general and specific standards prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller of the United States (now the U.S. Government Accountability Office).

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies including the U.S. Government Accountability Office (GAO), the Institute of Internal Auditors, the American Institute of CPAs, and the U.S. Securities and Exchange Commission. Auditor independence is essential to receive full value and creditable information from the internal audit function.

It is the desire and intention of senior management and the Board of Supervisors that the internal audit function shall be organized and managed to optimize auditor independence. Because the Internal Audit Division is part of the Auditor-Controller-Treasurer-Tax-Collector's Office, it is not an independent entity as described by the professional standards; however, the Internal Audit Manager and other internal audit staff shall strive to be free of all operational and management responsibilities that would impair their ability to make independent reviews of all aspects of the County's operations.

The Internal Audit Manager shall have no executive or managerial powers or duties, except those relating to the management of the Internal Audit Division. The Internal Audit Division shall have an independent status within the organization of the County of Sonoma and will not be directly involved in the day-to-day operation of the system of internal controls. The Internal Audit Division shall not be directly involved in the design and implementation of internal control systems but may be consulted and opine on the adequacy of controls.

E. MANAGEMENT

Subject to the overall guidelines and policies of the Board of Supervisors, the Internal Audit Division shall be solely responsible for the planning, implementation and reporting of the audits. For this purpose, the Internal Audit Division shall:

1. Prepare a Strategic Plan to set the long-term direction and approach to audits;
2. Prepare a detailed Annual Audit Plan and an Annual Budget for submission to the Board of Supervisors for approval;
3. Recruit the necessary personnel at remuneration rates adopted by the Department of Human Resources for appropriate levels of Internal Audit staff;
4. Carry out all activities to conduct the audits in an effective, professional and timely manner, and;
5. Report to the auditee as soon as practical upon completion of each audit.

F. REIMBURSEMENT OF COSTS

The Internal Audit Manager is to obtain fee for service reimbursement of operating costs in order to:

1. Allocate costs to the department, division, agency, or governmental entity who requests or benefits from the services provided;
2. strive to be self sufficient by recovering the audit division's costs through contract services, fees and reimbursements, thereby reducing unrecovered costs in the cost plan.

G. EXTERNAL RELATIONSHIPS

The annual audit conducted by the external auditors is an integral part of the County of Sonoma internal control system. In particular, the Audit Division shall:

1. Prepare the request for proposal for an external auditor of the County of Sonoma;
2. Communicate and coordinate with the external auditors to ensure that the audit programs of the Internal Auditors are complementary to the objectives of the external auditors.

The Internal Audit Division will perform the external audits of special districts imposed on the Auditor-Controller Treasurer Tax Collector by California Government Code Sections 26909 and 26910.