

INTRODUCTION

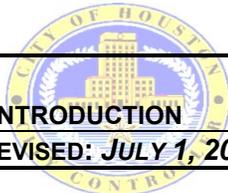
A brief discussion and sub-set of definitions is important as an introduction and basis for understanding the entity and function of the Audit Division (AD) Policies and Procedures Manual (Manual). This is intended to be a framework, set of standards, procedures, and control for the function of the AD within the Controller’s Office in the City of Houston. Contents of the Manual are driven by Generally Accepted Government Auditing Standards (GAGAS – sometimes referred to as the Yellowbook as issued by the Government Accountability Office – GAO) and the International Standards for the Professional Practice of Internal Auditing (the Standards sometimes referred to as the Redbook) and is based upon a process/functional approach.

APPLICATION AND INTERACTION OF RELEVANT STANDARDS

GAGAS is organized according to service types, which consider Internal Audit (IA) as a provider, while the guidance published by the Institute of Internal Auditors (IIA) focuses on IA as a function comprised of Division/Department and Engagement perspectives (See TABLE 1 below). GAGAS allow for the use of the IIA Standards in conjunction with Performance Audits while the relevant American Institute of Certified Public Accountants (AICPA) standards are embedded in GAGAS. Therefore, when the AD refers to adherence, conformance, or application to relevant standards, it’s not necessary to mention the AICPA because they are inherent to GAGAS.

TABLE 1

IIA	GAGAS
A functional approach considering the attributes and activities of IA with the Standards numbered as follows:	A service perspective focused on type (Financial Audits, Attestation Engagements, and Performance Audits), with some consideration given as to the provider (External, Internal, etc.) having the standards organized as follows:
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<u>1000 Series – Attributes</u> (Professional, organizational and functional)	<u>Foundation and Principles/General Requirements</u> (Applicable to all engagement types)
<u>2000 Series – Performance</u> (Execution of the various activities of IA such as: managing the IA activity, planning, risk assessment, internal control assessment, objectives, program/procedures, analysis, communicating, governance, monitoring, etc.)	<i>Chapters 1-2</i>
	<u>Ethics, Independence, Professional Judgment</u> <i>Chapter 3</i>
	<u>Competence and Continuing Professional Education</u> <i>Chapter 4</i>
	<u>Quality Control and Peer Review</u> <i>Chapter 5</i>
	<u>Financial Audits</u> (Fieldwork and Reporting) <i>Chapter 6</i>
	<u>Attestation Engagements</u> (Fieldwork and Reporting) <i>Chapter 7</i>
	<u>Performance Audits</u> (Fieldwork and Reporting) <i>Chapters 8 and 9</i>
NOTE: Activities are described once and applicable to the Internal Audit Function for all types of engagements, except where noted (consulting, etc.) <i>The related Implementation Guidance (IG) follows the same numbering schematic.</i>	NOTE: Activities/Functions (e.g. Planning, Risk, Controls, Reporting, etc.) are described for each type of engagement.



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NOTE: The Manual has been developed using various sources including the following:

- Prior AD Policies & Procedures (P&P) Manual
- Professional Standards (IIA / GAGAS)
- Implementation Guidance (IG)
- Industry Practice
- Professional Best Practices
- Training & Educational Material

As a starting point, the Manual describes the *primary* types of audit, assurance, attestation and/or consulting services that the AD provides as follows (this section is also included in 200.00 Audit/Engagement Process Overview):

- FINANCIAL AUDITS
- ATTESTATION ENGAGEMENTS
- PERFORMANCE AUDITS
- NON-AUDIT SERVICES/SPECIAL PROJECTS/CONSULTING

FINANCIAL AUDITS

Financial Statement Audits – The primary purpose of a financial statement audit is to provide financial statement users with an opinion by an auditor on whether an entity's financial statements are presented fairly, in all material respects in accordance with an applicable financial reporting framework. Reporting on financial statement audits conducted in accordance with GAGAS also includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.

Other types of Financial Audits – Other types of financial audits conducted in accordance with GAGAS entail various scopes of work, including:

- obtaining sufficient, appropriate evidence to form an opinion on a single financial statement or specified elements, accounts, or line items of a financial statement;
- issuing letters (commonly referred to as comfort letters) for underwriters and certain other requesting parties;
- auditing applicable compliance and internal control requirements relating to one or more government programs; and
- conducting an audit of internal control over financial reporting that is integrated with an audit of financial statements (integrated audit).

NOTE: Most engagements performed by the AD do not fall under the Financial Audits category, except for some of those that fall in the category of “Other types of Financial Audits”.

ATTESTATION ENGAGEMENTS

Attestation engagements can cover a broad range of financial or nonfinancial objectives about the subject matter or assertion depending on the users' needs. In an attestation engagement, the subject matter or an assertion by a party other than the auditors is measured or evaluated in accordance with suitable criteria. The three types of attestation engagements as follows:

Examination – An auditor obtains reasonable assurance by obtaining sufficient, appropriate evidence about the measurement or evaluation of subject matter against criteria order to be able to draw reasonable conclusions on which to base the auditor's opinion about whether the subject matter is in accordance with (or based on) the criteria or the assertion is fairly stated, in all material respects. The auditor obtains the same level of assurance in an examination as in a financial statement audit.

Review – An auditor obtains limited assurance by obtaining sufficient, appropriate review evidence about the measurement or evaluation of subject matter against criteria in order to express a conclusion about whether any material modification should be made to the subject matter in order for it to be in accordance with (or based on) the criteria or to the assertion in order for it to be fairly stated. Review-level work does not include reporting on internal control or compliance with provisions of laws, regulations, contracts, and grant agreements. The auditor obtains the same level of assurance in a review engagement as in a review of financial statements.

Agreed-Upon Procedures – An auditor performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The specified parties to the engagement agree upon and are responsible for the sufficiency of the procedures for their purposes. The specified parties are the intended user to whom use of the report is limited.

The subject matter of an attestation engagement may take many forms, including the following:

- Historical or prospective performance or condition, historical or prospective financial information, performance measurements, or backlog data;
 - Physical characteristics, for example, narrative descriptions or square footage of facilities;
 - Historical events, for example, the price of a market basket of goods on a certain date;
 - Analyses, for example, break-even analyses;
 - Systems and processes, for example, internal control; and
 - Behavior, for example, corporate governance, compliance with laws and regulations, and human resource practices.
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PERFORMANCE AUDITS

Performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.

Performance audit objectives vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. Audit objectives may also pertain to the current status or condition of a program. These overall objectives are not mutually exclusive. For example, a performance audit with an objective of determining or evaluating program effectiveness may also involve an additional objective of evaluating the program’s internal controls.

Key categories include: (1) program effectiveness and results audit objectives; (2) internal control audit objectives; (3) compliance audit objectives; and (4) prospective analysis audit objectives.

NONAUDIT SERVICES

Nonaudit services are professional services other than audits or attestation engagements. Before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS engagement they conduct.

NOTE: The term ‘Engagement’ is used throughout the manual and is intended to identify an Audit, Attestation, or Project and can include a non-audit service.



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DEFINITIONS

POLICY –

Overall intentions and direction of an organization related to its function as formally expressed by top management:

- Generally, the policy is consistent with the overall policy of the organization and provides a framework for the setting of objectives and, ultimately, the design of activities to meet these objectives as outlined through procedures and *internal* standards.
- Principles presented by professional standard setting bodies often form a basis for the establishment of policies. This is not to be confused with internal standards as specific rules to execute a function.

Policies are long-term, high-level management instructions on how the organization is to be run and generally are driven by legal concerns (due diligence). Policies reflect an organization's goals, objectives, and culture and are intended for broad audiences. They also are mandatory and are applicable to everyone (e.g. employee, contractor, temporary, etc.). Policies drive internal standards, procedures, and technical controls.

PROCEDURE –

Procedure is the specified approach to carry out an activity or a process. When professional standards are used to establish policy, often times there are additional guidance to design implementation through formal procedures. Procedures can be documented or not (although formal written procedures are preferred).

Procedures are specific instructions (ordered tasks) for performing some function or action. Procedures can be of a shorter duration, are mandatory, and reflect organizational or environmental changes.

STANDARDS (INTERNAL) –

Standards define the process or rules to be used to support the policy such as system-design models or specific software or methodologies. Standards can be directed to a broad audience or limited to specific groups or individuals (i.e., software developers), are of limited duration, and reflect organizational or environmental changes. Like policies and procedures, standards are mandatory.

DOCUMENT LAYOUT AND FORMAT

Based on the definitions provided above, the Manual documents are formatted as follows:

POLICY –

General commitment and statement of activity related to a specific process, function, or element that has a long-term vision. The procedure has a title and number that coincides to the Table of Contents (TOC). The body of the policy is committed to brevity and supported by the relevant professional standards listed at the end of the document.



PROCEDURE –

Instructions on how to perform a particular process with general guidelines and/or specific directions (where applicable) and correlate to an existing policy (e.g. Policy 140.00 – Engagement Documentation & Workpapers relates to Procedure 240.00 - Engagement Documentation & Workpapers, etc.) Each procedure or procedure section contains the following elements:

- **DEFINITIONS** – pertinent definition(s) of the process, function, or activity which provide a basis for performance;
- **PURPOSE** – reason for the process, function, or activity in relationship to the AD and/or engagement which gives direction in developing the supporting actions of the procedure (e.g. Approach, Methodology, etc.);
- **APPROACH AND METHODOLOGY** – actions and/or guidelines used to perform the process, function and/or activity, including the resulting output/documentation support; and
- **GUIDELINES/REQUIREMENTS** – relevant professional standards/practice advisories directly and/or indirectly related to the process, function and/or activity.

NOTE: The relevant guidelines and requirements that are identified within the policies and procedures are literal references of selected excerpts from the GAO, IIA, and other promulgating bodies. The intent of including them in the Manual is to support implementation decisions and provide a comprehensive document to guide the IA function within the Office of the City Controller for the City of Houston.

SUPPLEMENTAL INFORMATION –

Standard Forms/Layouts, Checklists, Additional Guidance and Instructions, Terms and Definitions, etc.

LINKS TO AUTHORITATIVE STANDARDS AND GUIDANCE AND INDEX –

- Link to: (1) <http://www.theiia.org/>
 Link to: (2) <https://www.gao.gov/products/GAO-18-568G>

CHANGE HISTORY

Chg #	Date	Section	Description/Reason
	7/1/2019		Updated to reflect updates to Professional Standards
