



<b>POLICIES AND PROCEDURES</b>	<b>INTRODUCTION</b> <b>LAST REVISED: MARCH 31, 2016</b>	<b>PAGE</b> <b>1 OF 6</b>
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## **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 (The 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. The Manual is driven by Generally Accepted Government Auditing Standards (GAGAS – sometimes referred to as the Yellowbook as written 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**

<b>IIA</b>	<b>GAGAS</b>
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:
<p>-----</p> <p><u>1000 Series – Attributes</u> (Professional, organizational and functional)</p> <p><u>2000 Series – Performance</u> (Execution of the various activities of IA such as: planning, risk assessment, internal control assessment, objectives, program/procedures, analysis, communicating, etc.)</p>	<p>-----</p> <p><u>General Standards</u> applicable to all types (Ethics, Competence, Independence, etc.) <i>Chapters 1-3</i></p> <p><u>Financial Audits</u> (Fieldwork and Reporting) <i>Chapter 4</i></p> <p><u>Attestation Engagements</u> (Fieldwork and Reporting) <i>Chapter 5</i></p> <p><u>Performance Audits</u> (Fieldwork and Reporting) <i>Chapters 6, 7</i></p>
<p><b>NOTE:</b> Activities are described once and applicable to the Internal Audit Function for all types of engagements, except where noted (consulting, etc.) <i>The related Practice Advisories (PA's) follow the same numbering schematic.</i></p>	<p><b>NOTE:</b> Activities/Functions (e.g. Planning, Risk, Controls, Reporting, etc.) are described for each type of engagement.</p>



<b>POLICIES AND PROCEDURES</b>	<b>INTRODUCTION</b> <b>LAST REVISED: MARCH 31, 2016</b>	<b>PAGE</b> <b>2 OF 6</b>
--------------------------------	--	------------------------------

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

- Prior AD Policies & Procedures (P&P) Manual
- Professional Standards (IIA & GAGAS)
- Practice Advisories (PA's)
- 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 reasonable assurance through an opinion (or disclaim an opinion) about whether an entity's financial statements are presented fairly in all material respects in conformity with Generally Accepted Accounting Principles (GAAP), or with a comprehensive basis of accounting other than GAAP.

Other types of Financial Audits – Other types of financial audits under GAGAS provide for different levels of assurance and entail various scopes of work, including:

- Providing special reports, such as for specified elements, accounts, or items of a financial statement;
- Reviewing interim financial information;
- Issuing letters for underwriters and certain other requesting parties;
- Reporting on the controls over processing of transactions by service organizations; and
- Auditing compliance with regulations relating to federal award expenditures and other governmental financial assistance in conjunction with or as a by-product of a financial statement 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".



<b>POLICIES AND PROCEDURES</b>	<b>INTRODUCTION</b> <b>LAST REVISED: MARCH 31, 2016</b>	<b>PAGE</b> <b>3 OF 6</b>
--------------------------------	--	------------------------------

## **ATTESTATION ENGAGEMENTS**

Attestation engagements can cover a broad range of financial or nonfinancial objectives and may provide different levels of assurance about the subject matter or assertion depending on the users' needs. There are three primary types of attestation engagements as follows:

Examination – Consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.

Review – Consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. ***As stated in the AICPA, Statement on Standards for Attestation Engagements (SSAE), auditors should not perform review-level work for reporting on internal control or compliance with laws and regulations.***

Agreed-Upon Procedures – Consists of specific procedures performed on a subject matter or on an assertion about a subject matter that is the responsibility of another party. The parties agree upon the appropriate procedures to be performed.

The subject matter of an attestation engagement may take many forms. Possible subjects of attestation engagements include reporting on:

- Prospective financial or performance information;
  - Management's discussion and analysis (MD&A) presentation;
  - An entity's internal control over financial reporting;
  - The effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
  - An entity's compliance with requirements of specified laws, regulations, policies, contracts, ordinances, or grants;
  - The accuracy and reliability of reported performance measures;
  - Incurred final contract costs are supported with required evidence and in compliance with the contract terms;
  - The allowability and reasonableness of proposed contract amounts that are based on detailed costs;
  - The quantity, condition, or valuation of inventory or assets; and
  - Specific procedures performed on a subject matter (agreed-upon procedures).
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<b>POLICIES AND PROCEDURES</b>	<b>INTRODUCTION</b> <b>LAST REVISED: MARCH 31, 2016</b>	<b>PAGE</b> <b>4 OF 6</b>
--------------------------------	--	------------------------------

## **PERFORMANCE AUDITS**

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 decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. Reporting information without following GAGAS is not a performance audit but a non-audit service provided by an audit organization.

A performance audit is a dynamic process that includes consideration of the applicable professional standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

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## **NON-AUDIT SERVICES**

Non-audit Services are professional services other than audits (Financial Audits or Performance Audits) or Attestation Engagements. Non-audit services typically do not provide, attestations, levels of assurance, or conclusions.

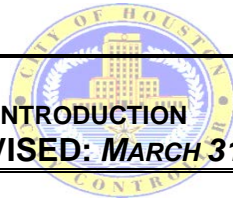
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## **SPECIAL PROJECTS/CONSULTING**

Occasionally, activities/engagements/projects are proposed that do not fit into the categories described above and would be considered non-audit services, as defined by GAGAS, and thus are not reported as being in conformance with Yellowbook. However, independence and potential impairment is still a consideration based on the type of activity performed. In contrast, consulting activities *can* be in adherence to the IIA Standards and, if an External Assessment has been performed on the Quality Assurance Program, the engagement deliverable can report "*Performed in Conformance to the International Standard for the Professional Practice of Internal Auditing*". Special Projects can involve benchmarking, providing guidance on internal controls, assisting in supporting calculations, reviews of processes, etc..

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**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.



<b>POLICIES AND PROCEDURES</b>	<b>INTRODUCTION</b> <b>LAST REVISED: MARCH 31, 2016</b>	<b>PAGE</b> <b>5 OF 6</b>
--------------------------------	--	------------------------------

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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.



<b>POLICIES AND PROCEDURES</b>	<b>INTRODUCTION</b> <b>LAST REVISED: MARCH 31, 2016</b>	<b>PAGE</b> <b>6 OF 6</b>
--------------------------------	--	------------------------------

**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) [Standards - The Institute of Internal Auditors](#)  
 Link to: (2) [Government Auditing Standards \(Yellow Book\)](#)

**CHANGE HISTORY**

<b>Chg #</b>	<b>Date</b>	<b>Section</b>	<b>Description/Reason</b>