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PLANNING AND RISK

The AD will adequately:

- Plan activities and engagements to be performed for the upcoming year based on a process as identified and outlined in Procedure 220.10, 220.30, and 220.40 of this manual, derived from risk assessment methodology. The CA establishes the risk-based Annual Audit Plan to determine the priorities of the internal audit activity, consistent with the City's goals and the AD Charter.
- Plan each engagement to sufficiently identify risk, objectives, scope, work to be performed (as outlined in [Procedure 220.20 - Engagement Planning](#)), and provide sufficient and appropriate documented evidence to adequately support findings, conclusions, and recommendations.

NOTE: The Annual Audit Plan is a published document which identifies each project for the upcoming fiscal year, while the Audit/Engagement Plan is developed at the project level and is dynamically refined, as needed. It is a documented process and maintained as part of the Audit/Engagement Documentation.

ANNUAL AUDIT PLAN

- Risk assessments are performed at the entity level to adequately plan the activities of the AD function by an annual process which considers: updated reviews of City Departments; Changes to the organizational structure or relationships that change our view of the overall "auditable universe"; Notable/Significant events, transactions, contracts, initiatives, leadership, or process changes affecting the City that occurred during the year; Considerations of acquisitions, changes, implementations, upgrades, interfaces of IT/IS that are integral components of business processes.
- Input and recommendations for projects to include in the audit plan is requested from the Mayor, City Council, and Department Directors. Management feedback is vital and intended to further identify the areas of exposed risk that operational management would like reviewed as well as providing value to the organization.
- The AD Management and Staff meet as a part of developing the proposed Annual Audit Plan to strategize potential engagements for the upcoming year.
- The CA drafts, proposes and presents an Annual Audit Plan of specific activities, engagements, and projects which consider risk and utilize a risk-based approach and available resources to the AD and the CC.
- The Annual Audit Plan is approved by the CC.

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- The approved Annual Audit Plan is presented to the AD. This provides ownership and direct participation which connects and aligns the objectives of the City to the AD and the individual auditor.
- Status, progress and other relevant communications pertaining to the Annual Audit Plan are provided to the CC on a routine (quarterly at minimum) basis.

ENGAGEMENT PLANNING

- The Engagement Plan is documented by the Lead Auditor (or designee) and approved by the Audit Manager.
- Information will be accumulated and recorded during the engagement which will contribute to the following:
 - Identification of the overall audit/engagement objective (including specific and measureable criteria, where required);
 - Identification and refinement of scope;
 - Risk and internal control assessment(s);
 - Defining risk and its residual;
 - Setting specific audit/engagement objectives;
 - Developing the audit/engagement program to meet specific objectives; and
 - Determining resources (internal and external) needed to accomplish the overall audit/engagement and specific audit/engagement objectives (this includes the budget).

CONSIDERATION OF MATERIALITY IN AUDIT PLANNING

AICPA standards require that auditors to apply certain concepts of materiality appropriately in planning and performing attestation and financial audits versus performance and nonaudit services. Additional considerations also apply to the consideration of preliminary judgments about attestation risk and materiality for attestation purposes. For those audit entities receiving government awards, the AD staff must consider levels of materiality that are more stringent than for those entities that may not experience the added pressures of public accountability associated with the increased visibility of receiving government funding, various legal and regulatory requirements, and the added visibility and sensitivity of government programs. In these cases, materiality thresholds may be appropriately lowered in consideration of such risks.

Materiality is considered appropriately within an audit/engagement when the auditor relates the significance of an item, amount, transaction, or discrepancy in the proper context of the audit scope and objectives. This is a significant part of the audit/engagement process and must be appropriately documented in the workpapers. For example, materiality is considered at the asset classification level, at the sub-category level and then at the line item level. These considerations must be



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documented and explained within the context of the audit scope and objectives and any decisions made to ignore materiality must be well documented and reviewed by audit management.

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in conformity with an identified financial reporting framework such as Generally Accepted Accounting Principles (GAAP). As a general rule of thumb, materiality thresholds for the AD are set at five percent. However, properly documented, the assessment of what is material is a matter of professional judgment.

NOTE: CAATs are used in analysis, where appropriate

RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE

GAGAS

FINANCIAL AUDITS	Chapter 4
ATTESTATION ENGAGEMENTS	Chapter 5
PERFORMANCE AUDITS	6.06 - 6.51
INDEPENDENCE (INCLUDING NON-AUDIT SERVICES)	3.02 – 3.59

IIA STANDARDS (ANNUAL AUDIT PLAN)

- 2010 PLANNING
- 2020 COMMUNICATION AND APPROVAL
- 2030 RESOURCE MANAGEMENT
- 2050 COORDINATION
- 2100 NATURE OF WORK
- 2110 GOVERNANCE
- 2120 RISK MANAGEMENT
- 2130 CONTROL

IIA STANDARDS (ENGAGEMENT PLANNING)

- 2200 ENGAGEMENT PLANNING
- 2201 PLANNING CONSIDERATIONS
- 2210 ENGAGEMENT OBJECTIVES
- 2220 ENGAGEMENT SCOPE
- 2230 ENGAGEMENT RESOURCE ALLOCATION
- 2240 ENGAGEMENT WORK PROGRAM

IIA PRACTICE ADVISORIES

- 2010 – 1 LINKING THE AUDIT PLAN TO RISK AND EXPOSURES
- 2010 – 2 USING THE RISK MANAGEMENT PROCESS IN INTERNAL AUDIT PLANNING
- 2110 – 1 GOVERNANCE: DEFINITION
- 2110 – 2 GOVERNANCE: RELATIONSHIP WITH RISK AND CONTROL
- 2110 – 3 GOVERNANCE: ASSESSMENTS
- 2120 – 1 ASSESSING THE ADEQUACY OF RISK MANAGEMENT PROCESSES

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- 2120 – 2 MANAGING THE RISK OF THE INTERNAL AUDIT ACTIVITY
- 2200 – 1 ENGAGEMENT PLANNING
- 2200 – 2 USING THE TOP-DOWN, RISK-BASED APPROACH TO IDENTIFY CONTROLS TO BE ASSESSED IN AN INTERNAL AUDIT ENGAGEMENT
- 2210 – 1 ENGAGEMENT OBJECTIVES
- 2210.A1 RISK ASSESSMENT IN ENGAGEMENT PLANNING

CHANGE HISTORY

Chg #	Date	Section	Description/Reason
1	3/31/2016	Consideration of Materiality in Audit Planning; New Para.	Added new paragraphs to address concerns resulting from 2014 Peer Review regarding non-documented considerations of materiality in audit planning not previously documented in the P&P