

Creating an Internal Audit Function
Texas Association of County Auditors Conference
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City of El Paso Internal Audit Office

- Recreated in 2005
- Current Staffing Level
 - Chief Internal Auditor
 - Audit Manager
 - 4 Staff Auditors
 - 1 Student Intern
- Website: www.elpasotexas.gov/audit



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Establish an Action Plan:

- I. Creating a solid audit infrastructure
- II. Creating an effective audit environment
- III. Creating a cooperative audit team
- IV. Avoid getting comfortable



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I. Creating a solid audit infrastructure

1. Policy and Procedures Manual
2. Internal Audit Charter
3. Fraud Policy
4. Standardized Internal Audit Forms
5. Conduct Organization-wide Risk Assessment
6. Prepare an Annual Audit Plan



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1. Policy and Procedure Manual

- a. Have a formal Policy and Procedure Manual. Written on paper and posted on Web Site.
- b. Make reference to the Professional Standards you follow (IIA Red Book or GAO Yellow Book).
- c. List your operational directives; office hours, staffing, vacation/sick leave, professional appearance.
- d. State operational procedures; Risk Assessment, Audit Planning, performing an audit, follow-up audits, forms, Quality Assurance Program, Fraud Policy, Peer Review.



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2. Internal Audit Charter

- a. Establish your Mission and Scope of Work.
- b. Accountability Section
- c. Independence Section
- d. Responsibility Section
- e. Authority to work
- f. Professional Standards that are followed
- g. How to amend Charter
- h. Endorsement by Management and Audit Committee



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3. Fraud Policy

- a) Create a Zero Tolerance Fraud Policy
- b) Have it endorsed by Senior Management
- c) Create a Fraud Hotline or a process to submit complaints or concerns.
- d) Send the message, **“If you steal, you go to Jail!!”**



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4. Standardized Internal Audit Forms

- a. Create a set of forms for all the staff to use.
- b. Place them on a network drive for the staff to have access to them.
- c. Provide training on the use of the forms.
- d. Be consistent from audit to audit.
- e. Review the content and revise as needed.
- f. Create checklist to monitor.

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5. Organization-wide Risk Assessment

- a) Assists with the concept of Risk-Based Auditing
- b) Identifies Audit Universe
- c) Helps identify the High Risk Areas
- d) Documents the Risk Assessment Process
- e) Provides the basis for the Annual Audit Plan
- f) Interview driven



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Audit Universe

- Identifies activities that are capable of being defined and evaluated.
- May include, but not limited to policies, procedures, general ledger account balances, information systems (manual & computerized), major contract, major programs, organizational units functions.
- City of El Paso's Audit Universe – Mayor/City Council, City Manager, City Attorney, Airport, Courts, Economic Development, Mass Transit, Police, Fire, Deputy City Managers' Portfolios.



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Examples of High-Risk Areas

- a) Management Interest
- b) Budget Risk
- c) Strategic Risk
- d) Reputation Risk
- e) Compliance Risk
- f) High Level of Decentralization
- g) Legal Claims
- h) Time Last Audited
- i) Change in Management

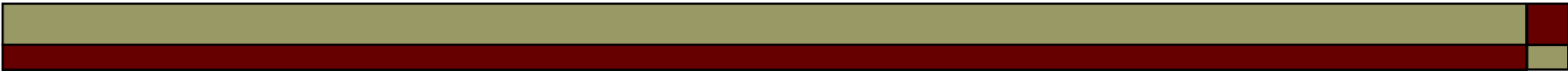


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Measurement the Risk

- a) Involves a measurement of risks
- b) Can use a numbering system, i.e., 1-5 or 1-10
- c) Can use a coloring system; red, yellow, green
- d) Can use a grading system; A, B, C, D, F
- e) Assist in identifying your high-risk areas



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6. Annual Audit Plan

- a) Schedules Audits, Follow-up Audits, and Projects for the year.
- b) Allocates the budgeted audit hours per audit.
- c) Usually broken up into quarters.
- d) Allocates administrative, vacation, sick leave, holidays, and training hours.
- e) Brings structure to the audit planning process.



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II. Create an Effective Audit Environment

1. Establish an Internal Audit Committee
2. Make your Audit Function independent of the areas you will audit
3. Report to your CEO administratively
4. Report to your Internal Audit Committee functionally
5. Educate your Audit Committee on Risk-Based Auditing



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1. Audit Committee

- a. Establish an independent Audit Committee which reports to the Board of Directors.
- b. The Board of Directors could be any policy making entity.
- c. Have competent Audit Committee members.
- d. Provide audit training to Audit Committee members.



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2. Create Independence

- a. Establish a set of reporting lines to establish independence
- b. Report *functionally* to the Audit Committee
- c. Report *administratively* to the organization's CEO
- d. Report *legislatively* to an elected body if so organized
- e. Document the independence with a strong Organizational Chart
- f. Maintain your independence **“in fact”** and **“in appearance”**



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3. Establish a Reporting System to Audit Committee

- a. Prepare periodic reports; monthly, quarterly, semi-annually, annually.
- b. Select a consistent format.
- c. Provide a consistent training program to your Audit Committee.



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4. Create Reporting Lines

- a. Report to the Audit Committee Functionally
- b. Report to the CEO Administratively
- c. Report to an elected body Legislatively



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III. Create a Cooperative Audit Team

1. Try and create a diverse staff.
2. Allow free thinking.
3. Provide constant training to build self-confidence.
4. Reward staff whenever possible. For example, attendance to conferences and CPE training.
5. Encourage staff lunches.
6. Look for Team Building opportunities.
7. Job rotation.



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Training Program

1. Establish a minimum amount of training hours per staff member (40 hours if certified – 20 hours if not certified).
2. If staff member is certified, schedule hours in Audit Plan to allow CPE hours.
3. Encourage obtaining Professional Certifications (CIA, CGAP, CPA, CFE)
4. Encourage education (Bachelors and/or Masters Degree).
5. Obtain Budget money to pay for training and/or education.
6. Join Professional Organizations (IIA, ACFE, AICPA)



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Audit Library

- Subscribe to internet services
- Purchase reference material
- Purchase training videos
- Maintain list of free websites



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Team Building

1. Lead by example.
2. Establish the “Tone at the Top.”
3. Create a “Professional” office environment.
4. Encourage and allow an open environment where employees can speak freely.
5. Empower staff to get their work done and provide feedback.



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IV. Avoid Getting Comfortable

1. Don't rest. It has only just begun.
2. The hardest part is to keep your audit team functioning at its peak.
3. Review and update your Audit Charter annually.
4. Review and update your Policy and Procedure Manual annually.
5. Constantly evaluate your high risk areas. Maintain a file to place documents or notes on high risk areas.



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Resources:

- Institute of Internal Auditors, www.theiia.org
- Association of Local Government Auditors, www.alga.org
- General Accountability Office, www.gao.org
- City of El Paso – Internal Audit Office,
www.elpasotexas.gov/audit



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THANK YOU

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