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# 1. Introduction

## a. History

Deschutes County created an internal audit program and formed an Audit Committee in 2002 to contribute to the efficiency and effectiveness of county operations. Initially the internal audit program consisted of one staff member. An additional Performance Auditor position was added in 2022 and the Office of Internal Audit was created.

The County Internal Auditor role was codified in Deschutes County Code 2.14 in 2005. The County Audit Committee was codified in Deschutes County Code 2015 in 2008. Both codes have been amended periodically.

The County adopted policy #GA-14 for Whistleblower Reporting in 2020 requiring the County Internal Auditor to play a role in managing a whistleblower hotline and providing oversight of fraud, waste, or abuse investigations that may occur. Separate policies and procedures are in place for hotline administration.

## b. Mission and Purpose, Goals and Objectives

The mission of the Office of Internal Audit is to improve the performance of Deschutes County government and to provide accountability to residents. This is in alignment with the County’s mission statement of

“Enhancing the lives of citizens by delivering quality services in a cost-effective manner.”

The purpose of the Office of Internal Audit is to examine and evaluate through an objective, disciplined, and systematic approach, the effectiveness, efficiency, and equity of operations; the reliability of financial reporting; and the degree of compliance with applicable laws and regulations.

The Office is dedicated to serving the public interest by conducting high-quality audits that promote accountability, transparency, and efficiency in government operations. We uphold professional standards, maintain independence, and ensure our work provides reliable and meaningful insights that benefit the public. (GAS 5.46a)

The mission and purpose of the Office of Internal Audit are founded on basic auditing premises promulgated by the Government Accountability Office and the Comptroller General of the United States. These premises are based on the belief that public officials, managers, and others entrusted with handling public resources are responsible for using those resources efficiently, effectively, equitably, and lawfully.

## c. Office Description and Staff

The Office of Internal Audit is headed by the County Internal Auditor. The County Internal Auditor serves as the Chief Audit Executive for the County and performs all day-to-day

functions necessary for the administration and management of the Office of Internal Audit. The County Internal Auditor:

- Develops and implements policies and procedures for the Office of Internal Audit in compliance with the government auditing standards.
- Directs all internal audit activities for the County and is responsible for the most difficult assignments requiring a higher level of responsibility, applying advanced subject knowledge, and exercising significant independent judgement and oversight over staff.
- Advises the Board of County Commissioners, County Administrator, and County departments and elected offices on the continuous improvement of County governance, risk management, and control processes.
- Oversees the selection, appointment, direction, supervision, discipline, and dismissal of all Office of Internal Audit staff, ensuring adherence to County policies and procedures to efficiently and effectively administer the affairs of the Office. (DCC 2.14.001)

The County Internal Auditor reports to the County Administrator for administrative matters, to the Audit Committee for work functionally, and may also report directly to the Board of County Commissioners.

#### d. Performance Measures

The Office of Internal Audit may develop and utilize performance measures to track the performance of services provided. Currently for budgetary purposes the following two measures are being utilized:

- Recommendation acceptance rate: This measure indicates how well the recommendations are being accepted.
- Customer survey satisfaction rate: This survey indicates whether there is satisfaction in audit work being performed.

Additional measures should be identified and tracked. To the extent possible, these may be trended and or compared to benchmarks (such as ALGA's biennial survey). Further instructions for compiling and reporting on measures are included in the Office's Standard Operating Procedures.

#### e. Audit Committee

The County Internal Auditor supports the Audit Committee which provides oversight to the external and internal audit functions of the County. It helps ensure the audit function retains organizational independence from political and administrative pressures. The Audit Committee's organizational documents are codified in the Deschutes County Code. The Audit committee periodically reviews their code as well as the code governing the County

Internal Auditor. The Audit Committee does not have the authority to override any engagement findings supported by sufficient, competent, and relevant evidence.

The Audit Committee consists of

- One representative from the Board of County Commissioners
- Four to six public members
- Two department heads (traditionally one of the department head positions is held by an elected official)

Audit Committee terms are two years long and are staggered to not have all of the committee members turn-over in any given year. Members may be re-appointed to successive terms. The County Administrator is an ex-officio nonvoting member.

#### f. Authorization and other Legal and Ethical Requirements

The Office of Internal Audit operates in the context of State of Oregon and Deschutes County laws and rules. Staff should be familiar with all legal requirements including the requirements highlighted in this section. It is important that staff incorporate these requirements into their professional values and attitudes. (GAS 5.46b and 5.47a1)

##### i. State of Oregon

- Oregon Ethics Law [ORS Chapter 244](#)
- Local Government Waste Programs [ORS 297.760-297.765](#)
- Whistleblower [ORS 659A.199-659A.236](#)
- Record retention OAR [166-150-0005](#)
- Public record requests [ORS 192.410 to 192.501](#)
- Public records exempt from disclosure [ORS 192.355\(4\)](#)
- Whistleblowing disclosures by Employees [OAR 839, Division 10](#)

##### ii. Deschutes County Law and Policy

- [Code 2.14 - County Internal Auditor](#) – This code section provides the County Internal Auditor with broad powers to audit and investigate matters and have access to employees and data.
- [Code 2.15 - County Audit Committee](#) – This code outlines the role and duties of the Audit Committee.

- [County Policy GA-14 Whistleblower Reporting](#) – This policy authorizes the County Internal Auditor to manage and maintain a whistleblower program to receive information regarding allegations of fraud, waste, abuse, or inefficiency by local government employees. All Human Resource related reports are to be handled by Human Resources and do not fall under these procedural guidelines.
- [County Policy GA-15 Responding to Report, Study, and Audit Recommendations](#) – This policy requires written responses to audit reports within two weeks unless additional time is given.

### iii. Government Auditing Standards

The Office of Internal Audit operates according to government auditing standards issued by the Comptroller General of the United States. These are formally referred to as [Government Auditing Standards](#) and informally as the Yellow Book. According to the Standards, they “provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services.”

[Deschutes County Code](#) requires the County Internal Auditor govern the Office in adherence with Government Auditing Standards, including the establishment of relevant policies and procedures. (DCC 2.14.025 and 2.14.030).

in rare circumstances, the County Internal Auditor may find it necessary to depart from Government Auditing Standards or these procedures. In such cases, the County Internal Auditor will provide documentation for why the standard was not followed, alternative procedures performed to achieve the intent of the Standards, and that alternative procedures were followed. (GAS 2.03 and 2.04)

Each staff member is responsible for becoming familiar with and adhering to the requirements of Government Auditing Standards, any additional Government Accountability Office updates or interpretive guidance, as well as these policies and procedures. All staff will review these policies and procedures at least annually. (GAS 2.05 and 2.06) Monitoring will occur on an exception-basis. Staff found not in adherence to these policies and procedures may be subject to administrative discipline. The County Internal Auditor will be the final arbiter of the application of the standards and these policies and procedures. The standards will provide the highest level of guidance and secondarily these policies and procedures for implementation. Inconsistencies, if any, will be decided by the County Internal Auditor.

## 2. Audit Quality

The Office of County Internal Audit is committed to achieving a high level of audit quality. Quality is achieved through adherence to professional auditing standards; internal policies and procedures; and through proper supervision (accomplished through policy and procedures) and training. Quality is also an important consideration in making strategic decisions and actions. (GAS 5.46d) Office leadership must also demonstrate a commitment to quality through actions and behaviors. (GAS 5.45c) This section of the manual presents the standards and procedures that have been highlighted to help achieve a consistently high level of audit quality.

### Leadership

#### a. Independence

Government Auditing Standards state, "In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity." (GAS 3.18) Independence is one of the most fundamental expectations of auditors and allows them to act in the public interest. Auditors and audit organizations should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work. (GAS 3.19) The organization must be independent, and auditors must be independent during the period covered by the covered by the subject matter of the engagement and period of the engagement. (GAS 3.20) Threats to independence include self-interest, self-review, bias, familiarity, undue influence, management participation, and structural threats. (GAS 3.03)

Auditors use a conceptual framework to assess independence and make independence determinations based on unique facts and circumstances.

#### i. Organizational Independence

The Office of Internal Audit is organizationally independent for the purposes of reporting the Government Auditing Standards compliance statement. (GAS 9.04, 5.45d, 5.47a) The ability of audit organizations to perform work and report the results objectively can be affected by placement within and the structure of the government entity being audited. The Office is organizationally independent because the County Internal Auditor meets all the following criteria:

- is accountable to the head or deputy head of the government entity or those charged with governance;



- reports the results both to the head or deputy head of the government entity and those charged with governance;
- is located organizationally outside the staff or line management function of the unit under audit;
- has access to those charged with governance, and;
- is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal. (GAS 3.52-3.58)

## ii. Auditor Independence

Auditors will complete a Conceptual Framework form to document personal considerations of independence, and impairments, and steps taken for mitigation. Each auditor will complete the form annually, and when they are assigned to an engagement. (GAS 3.27, GAS 3.33, GAS 3.107, GAS 5.47a, and GAS 5.48b) Annual and engagement independence forms will include:

- an assessment of independence.
- any threats identified above an acceptable level.
- steps and safeguards to mitigate threats identified and reduce them to an acceptable level.
- commitment to comply with Office policies and procedures related to independence. (GAS 3.32)

When completing the form, auditors will use professional judgment (GAS 3.29) and determine if identified threats to independence have been eliminated or are at an acceptable level considering qualitative and quantitative factors for significance. (GAS 3.31)

Auditors will consider previously provided nonaudit services when considering threats to independence. Consideration will include whether Government Auditing Standards expressly prohibited the service and whether the skill, knowledge, or experience of the person overseeing the service was sufficient. Any identified threats should be addressed within the context of the conceptual framework. (GAS 3.83) For more information on nonaudit services see section [3.d](#).

Auditors will evaluate threats to independence anytime auditors become aware of new facts or circumstances that could affect whether a threat has been addressed. (GAS 3.28) These will also be documented in an updated version of the form.

If threats are identified after a report is issued, auditors will evaluate the threat's impact on the engagement and compliance with Government Auditing Standards. If they

determine that the new information would have changed the report's conclusions, then they will communicate the threat to the people the report was initially distributed to so that they do not continue to rely on the report. If the report was posted to the website, it should be removed and replaced with a notice that it was removed. The auditors can decide whether it is necessary to perform additional work to reissue the report with revised findings and conclusions or repost the original report if additional work does not change the conclusions. (GAS 3.34)

Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate unacceptable threat or reduce it to an acceptable level (GAS 3.59) When this happens, auditors should decline to accept an engagement or should terminate an engagement in progress (GAS 3.60).

## b. Quality Management

A quality management system is designed to provide reasonable assurance that organizations and personnel comply with professional standards and applicable legal and regulatory requirements and perform and report on engagement performance in accordance with standards and requirements. (GAS 5.05) The Office of Internal Audit documents its quality management system through this manual, along with other supporting documents and procedures. Documentation is intended to

- support personnel's consistent understanding of the system of quality management, including an understanding of their roles and responsibilities with respect to the system of quality management and performing engagements;
- support the consistent implementation and operation of the responses to address quality risks; and
- provide evidence of the design, implementation, and operation of the responses to address quality risks to support the evaluation of the system of quality management by the senior-level official assigned responsibility and accountability for it. (GAS 5.132)

All Office of Internal Audit staff are responsible for reading this manual and will receive on-the-job training to reinforce and explain how procedures are applied. All staff are responsible for quality in performing engagements or activities within the system of quality management and their expected behavior. (GAS 5.45 a, 5.45 d, and 5.46 c) The County Internal Auditor is responsible for establishing appropriate procedures, appropriately communicating procedures, and establishing the appropriate tone at the top for quality audit work performed under Governmental Auditing Standards. (GAS 5.13, GAS 5.14, GAS 5.45b, and 5.45d)

## i. Internal Policies and Procedures

Aspects mentioned here only:

- **Quality Risk Assessment**

Each year, the office will perform a quality risk assessment to identify and mitigate risks that could affect audit quality. (GAS 5.19)

The review will allow the Office to identify, analyze, and respond to changes in the nature and circumstances of the audit organization or its engagements that could affect the quality objectives, quality risks, or responses to address quality risks. (GAS 5.23)

Quality objectives will include the following. The Office may establish additional objectives.

- a. The audit organization demonstrates a commitment to quality through a culture that exists throughout the audit organization.
- b. Leadership is responsible and accountable for quality.
- c. Leadership demonstrates a commitment to quality through its actions and behaviors.
- d. The organizational structure and assignment of roles, responsibilities, and authority are appropriate to enable the design, implementation, and operation of the audit organization's system of quality management.
- e. Resource needs are planned for, obtained, allocated, and assigned in a manner consistent with the audit organization's commitment to quality. (GAS 5.20 5.54)

To identify quality risks, the Office will obtain an understanding of the conditions, events, circumstances, actions, or inactions that may adversely affect the achievement of the quality objectives; and consider how, and the degree to which, the conditions, events, circumstances, actions, or inactions may adversely affect the achievement of the quality objectives. (GAS 5.21)

The Office will design and implement responses to address the quality risks. (GAS 5.22)

- **Indexing and referencing:**

Traditional external quality reviews are not possible in a two-person audit shop where both staff are involved in all audits. However, The Office has established a similar review process to verify the logic and accuracy of information contained in the audit report. In review, the staff person who is not leading the audit is asked to

serve as referencer and to review an approved copy of the internal document that is labeled "Reference Copy."

Referencing is completed electronically, with report contents linked ("indexed") to supporting working papers. The link should be as specific as possible, to a cell of a spreadsheet or to a paragraph of a document. The auditor may highlight or make index marks in the working paper to point the referencer to the correct information.

Referencing can be a time-intensive activity and therefore subjectivity should be used in determining what should be referenced. Not every sentence needs to be referenced. Auditors should index all major figures, facts that are not considered common knowledge, conclusions, and any other information the auditor thinks is necessary. The auditor should make the decision of what to index based on risk. A referencer may request additional cites if they believe a statement is not adequately supported. Auditor and referencer may choose to reference some working papers or sections of the report before the full report is completely indexed.

When the Reference Copy has been indexed, the referencer checks the working paper cites and confirms the audit contains sufficient, appropriate evidence to support the audit report. Once the referencer is satisfied that the information is supported and accurate, the referencer indicates approval by not commenting on the link.

When the referencer discovers inaccuracies or disagrees with the logic or adequacy of support, the referencer creates a comment with the question or area of disagreement. Minor points can be handled informally (orally); however, all substantive matters should be recorded in the comment box.

After the referencer has completed their initial review, the auditor responds to each point made by the referencer in the open comments by responding to the referencer comment with additional information or clarification. If a disagreement arises which the auditor and referencer are unable to resolve, the County Internal Auditor makes the final decision. Independent review is complete when all review points have been cleared by closing of all comments.

Subsequent changes to the report must also be checked by the referencer, either added to the original reference draft or as a separate document. It is the responsibility of the lead auditor to ensure all substantive additions or changes are referenced.

If either staff member is on leave for more than one month, or a position is vacant, the auditor will index a report, but referencing will not take place. Absence of a reference should be noted in the audit plan.

- **Review of Audit Engagement form (ALGA checklist):**

This quality control checklist is a review form taken from the ALGA Peer Review Guide. The checklist provides a summary of required elements that would be covered during a peer review to assure compliance with standards. The checklist should be completed for every audit engagement. Work paper references may be cited in the “comments” column to demonstrate how compliance was achieved for each auditing standard. Items on the checklist that are not applicable to the engagement should be noted.

The following are aspects of internal quality control that are referenced in other sections of this manual.

- Annual and project independence and compliance statements to ensure auditor independence. (2.a.ii)
- Procedures for adopting the annual audit plan to ensure that projects comply with professional standards, applicable legal and regulatory requirements, and ethical principles; are within the Office’s legal mandate or authority; and are within staff capabilities, including time and resources. (4.a)
- Minimum qualifications for staff to ensure that staff have the competence to conduct engagements in accordance with professional standards and applicable legal and regulatory requirements. (2.c.i)
- Processes to document continuing professional education to provide reasonable assurance that auditors meet requirements, including documentation of completed training and any exemptions granted. (2.c.iii)
- Policies and procedures for engagement performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that engagements are conducted, and reports are issued in accordance with professional standards and applicable legal and regulatory requirements. (4)
- Policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation. (5.a)
- Policies and procedures to ensure that if auditors change the engagement objectives during the engagement, they document the revised engagement objectives and the reasons for the changes. (4.b.iv)

- Policies and procedures requiring that auditors should document the results and work to date of terminated engagements, and why the engagement was terminated. (4.e.vi)

## ii. Supervision

With a two-person audit shop, both the County Internal Auditor and the Performance Auditor play a role in supervision with each performing review of the others work. Both positions provide feedback and review at the engagement level. Supervisions includes:

- taking overall responsibility for managing and achieving quality on the engagement; and determining that independence and ethical requirements have been fulfilled for each engagement prior to issuing the audit report. (GAS 5.54a, GAS 5.54b)
- **weekly check-in meetings** where staff discuss progress made and whether work is being carried out according to the audit plan, identifying significant findings and issues, modifying the audit plan if necessary, and identifying whether outside specialists are needed for consultation.

A review of the work performed is documented in the **Comments Form** in the QA section of the workpapers. (GAS 8.87) Each staff member uses the form to document review of significant workpapers and comments. By approving comments in the form, staff indicate:

- the work has been performed in accordance with professional standards and applicable legal and regulatory requirements.
- significant findings and issues have been raised for further consideration.
- appropriate consultations have taken place and the resulting conclusions have been documented and implemented.
- the nature, timing, and extent of the work performed is appropriate and without need for revision.
- the work performed supports the conclusions reached and is appropriately documented.
- the evidence obtained is sufficient and appropriate to support the report.
- the objectives of the engagement procedures have been achieved.

The Comments Form will include the Findings Organization form to indicate that evidence supports the findings, conclusions, and recommendations that will be contained in the audit report. (GAS 8.135)

The County Internal Auditor has additional supervisory roles including developing the Office budget, assuming responsibility for all audit engagements, assigning staff to

engagements, reporting audit results and Office performance to management and the Audit Committee, conducting staff annual evaluations, and conducting the annual quality review of the Office. (GAS 5.55a and GAS 5.55b) Supervision also includes directing and guiding staff in performing work and complying with standards, staying informed about significant problems encountered during an audit, reviewing work performed before a report is issued, and providing on-the-job training. (GAS 8.87)

Audit work performed by the County Internal Auditor cannot be supervised because there are no other staff to act as supervisor. In the absence of other staff, the County Internal Auditor will

- perform a self-review of their work,
- validate significant findings with the auditee, and
- prepare the quality control checklist.

This will help assure that quality audit work is performed.

### iii. Annual Quality Assurance

In January of every year, the County Internal Auditor will review continuing education documentation and Review of Audit Engagement forms for each audit completed in the previous calendar year. The County Auditor will determine compliance with Office policies and procedures and areas for improvement.

The purpose of this monitoring activity is to provide relevant, reliable, and timely information about the design, implementation, and operation of the system of quality management; take appropriate actions to respond to identified deficiencies so that they are remediated on a timely basis; and enable the Office to assess compliance with professional standards and with policies and procedures it has established to address quality risks. (GAS 5.90)

The County Internal Auditor will perform this function to ensure objectivity, and that sufficient competence, authority, and time is devoted to perform these activities. (GAS 5.91)

If any significant deficiencies are found and the County Internal Auditor determines that the system of quality control is insufficient to provide reasonable assurance of compliance with professional standards and applicable legal and regulatory requirements, the County Internal Auditor will conclude that the reports in question are not appropriate. (GAS 5.122)

The auditor will also evaluate the severity and pervasiveness of identified deficiencies in the system of quality management by investigating their underlying causes and

evaluating their effect, both individually and in the aggregate, on the system of quality management.

Based on the review, the County Internal Auditor will make one of the following conclusions:

- The system of quality management provides the audit organization with reasonable assurance that the objective of the system of quality management is being achieved.
- Except for matters related to identified deficiencies that have a severe but not pervasive effect on its design, implementation, and operation, the system of quality management provides the audit organization with reasonable assurance that the objective of the system of quality management is being achieved.
- The system of quality management does not provide the audit organization with reasonable assurance that the objective of the system of quality management is being achieved. (GAS 5.128)

Results of the annual quality review will be reported to Office of Internal Audit Staff and the Audit Committee at the February meeting. The report will include

- a description of the monitoring activities performed;
- the identified deficiencies, along with information about their severity and pervasiveness; and
- remedial actions to address identified deficiencies.

(GAS 5.48a, 5.87, 5.110, and 5.125)

Results will also be shared with staff to enable them to take prompt remedial action related to deficiencies in accordance with their responsibilities. (GAS 5.126) Remedial actions should respond to the results of the analysis of underlying causes to address identified deficiencies in the system of quality management. (GAS 5.119) Remedial actions will be monitored and evaluated over the course of the next year to determine whether they are effective in addressing the identified quality management deficiencies and their related underlying causes. (GAS 5.120) If the remedial actions are determined to not be effective, the Office will modify them such that identified deficiencies and their related underlying causes are addressed. (GAS 5.121)

The annual quality review will be documented. Documentation will include

- Identification of the County Auditor as the person assigned responsibility and accountability for the system of quality management.



- Reference to the quality management risk assessment, including its quality objectives, quality risks, and a description of the responses and how the audit organization's responses address the quality risks.
- Reference to the monitoring and remediation process, evidence of the monitoring activities performed; the evaluation of findings, and identified deficiencies and their related underlying causes; remedial actions to address identified deficiencies and the evaluation of the design and implementation of such remedial actions; and communications about monitoring and remediation.
- The conclusion and the basis for the conclusion reached.

(GAS 5.133)

#### iv. External (Peer Review)

Deschutes County Code and Government Auditing Standards require the Office of Internal Audit to receive an outside review every three years. The outside review is conducted by a team of audit professionals who assess the design of the system of quality control and its implementation to determine conformance with Government Auditing Standards and other legal and regulatory requirements. (GAS 5.48a and GAS 5.155) The Office of Internal Audit uses the Association of Local Government Auditor peer review program to conduct the review.

The County Internal Auditor will share results of peer reviews with the County Administrator, the Audit Committee, and post the results on the Office website. (GAS 5.172 and 5.173) The peer review report will also be provided to any requesting party. (GAS 5.174)

### c. Competence and Continuing Professional Education

#### i. Recruitment and Hiring

The Office of Internal Audit follows Deschutes County Human Resources rules and practices for recruitment and hiring. (GAS 4.04) Minimum qualifications for the County Internal Auditor and Performance Auditor are listed on the [Deschutes County website](#). (GAS 5.74a, GAS 5.74)

#### ii. On-boarding

On-boarding Guidelines are included in the Office's Standard Operating Procedures.

#### iii. Continuing Professional Education

The Office of Internal Audit supports continuous education for staff. The Office will budget for at least 80 hours of continuing education every two-year period for each

auditor who plans, directs, performs procedures for, or reports on an audit conducted in accordance with Government Auditing Standards. This will include 24 hours in training directly related to the government environment, government auditing, or Deschutes County operations. (GAS 4.16, GAS 5.74b, and GAS 5.74c) Auditors should complete at least 20 hours of training in each year of the two-year period. (GAS 4.17) Exemptions apply for staff who have a qualifying event such as not being employed at the Office for part of a year or taking extended sick leave.

Procedures for documenting continuing professional education are described in the Office Standard Operating Procedures. (GAS 4.18)

#### iv. Staff Evaluations

The County Internal Auditor will perform an annual performance review for each Performance Auditor. The review will follow processes adopted by the Deschutes County Human Resources department and posted on the County SharePoint site. (GAS 5.74)

County Internal Auditor is evaluated by the Audit Committee. (GAS 4.04 and GAS 5.74b)

#### d. Professional Judgement

Auditors must use professional judgment in planning and conducting the engagement and in reporting the results. (GAS 3.109 and GAS 5.54c) Professional judgment represents the application of the collective knowledge, skills, and abilities of all the personnel involved with an engagement, as well as the professional judgment of individual auditors. In addition, professional judgment may involve consultation with other stakeholders, specialists, and management in the audit organization.

Auditors must be objective and competent when applying professional judgement. Objectivity is closely related to the concept of independence and includes maintaining the independence of mind and appearance; employing an attitude of impartiality; valuing intellectual honesty; and remaining free of conflicts of interest. Professional judgement must be applied in a competent manner. This means that auditors use professional knowledge, skills, and abilities, in good faith and with integrity, to diligently gather information and objectively evaluate the sufficiency and appropriateness of evidence.

Professional Judgement is applied in all aspects of professional responsibilities. These include:

- following the independence standards including a continued assessment of relationships with auditees and other stakeholders.
- maintaining objectivity and credibility.

- assigning competent personnel to the engagement.
- defining the scope of work.
- evaluating, documenting, and reporting the results of the work.
- considering the risk level of each engagement, including the risk of arriving at improper conclusions.
- maintaining appropriate quality control over the engagement process.

While this requirement places responsibility on each auditor and audit organization to exercise professional judgment in planning and conducting an engagement, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable because of factors such as the nature of evidence and characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific engagement, but rather identifying, assessing, mitigating, and concluding on them.

#### e. Difficult or Contentious Matters

Auditors will assess and identify issues that are complex, sensitive, or subject to significant disagreement, whether arising internally within the audit team or externally with auditees, oversight bodies, or other stakeholders. Matters requiring consultation may include, but are not limited to, interpretations of audit standards, legal or regulatory concerns, scope limitations, or significant audit findings. (GAS 5.54d and 5.54e)

When a difficult or contentious issue arises, auditors will consult with the appropriate internal or external parties. This may include senior audit staff, legal counsel, subject matter experts, or representatives of the audited entity. The consultation will be documented, including the nature of the issue, the individuals consulted, the date of consultation, and key points discussed.

The audit team will work collaboratively to reach a resolution, considering relevant professional standards, policies, and legal requirements. If the issue involves an external disagreement, discussions will be conducted professionally and in good faith to seek consensus while maintaining audit integrity and independence. If disagreements persist, escalation procedures may be followed, including review by audit committee members or legal counsel as appropriate.

The County Internal Auditor will make the final decision about how the issue will be resolved.

Agreed-upon conclusions will be implemented in audit planning, execution, or reporting, as applicable. The resolution of internal and external disagreements will be documented in

audit workpapers, ensuring a clear record of the consultation process and any adjustments made.

### 3. Office Functions

#### a. Audits

The primary function of the Office of Internal Audit is to perform audits. Details on the audit process are included on this manual in the [Managing the Audit Process](#) section.

#### b. Whistleblower Hotline

The Office of Internal Audit manages the Deschutes County Whistleblower Hotline. More details on the program are available in the Whistleblower Desk Manual.

#### c. Recommendation Status Database and Global Follow-up

##### i. Recommendation Database

The Office of Internal Audit has developed a database to capture recommendations and status over time. The database will allow for greater efficiencies in developing workplans, performing follow-ups, and provide transparency to the Audit Committee, County Management, and the public. For more information on the database, see the Audit Recommendation Database section of the Office's Standard Operating Procedures.

##### ii. Global Follow-up

Each year the Office of Internal Audit will identify any unresolved recommendations not in line for initial follow-up and produce a global follow-up report. The Office will request updates from management on any outstanding recommendations in the fall and then report on recommendation status in January.

#### d. Nonaudit Services and Evaluations

The Office of Internal Audit originating code includes the provision of nonaudit services and evaluations stating:

The purpose of having the Office is to provide independent objective assurance *and consulting services* designed to add value and improve Deschutes County's operations through improved performance and enhanced control environment thereby providing greater accountability to its residents.  
DCC 2.14.001 (emphasis added)

However, nonaudit services and evaluations will only be considered when the Office has resources available to provide services, the services do not compromise the independence

of the Office, and safeguards to protect independence are in place. The Audit Committee has traditionally prioritized audits and limited any nonaudit services.

#### i. Consideration and Approval of Nonaudit Services

When a request is made for a nonaudit service or evaluation, the County Internal Auditor will consider whether to take on the services. Consideration will include whether:

- the Office of Internal Audit has resources available to perform the service.
- the nonaudit service creates a threat to independence either by itself or in aggregate with other services (GAS 3.64) and how significant the threat is. (GAS 3.90)
- safeguards can be put into place for any identified threats to independence. (See sections 3.e.ii for nonaudit services that threaten independence.)
- management has designated a person to oversee the services who has suitable skills, knowledge, and experience and understands the services to be provided sufficiently to oversee them. (GAS 3.73)

If management is unable or unwilling to oversee a nonaudit service, auditors will conclude that the nonaudit service impairs independence. (GAS 3.75) These considerations will be documented in the project folder. (GAS 3.74)

Nonaudit services should be approved by the County Administrator after consultation with the Audit Committee. The County Internal Auditor will decide and advise the County Administrator if the nonaudit work may jeopardize independence and whether the work should be performed. DCC 2.14.030

#### ii. Nonaudit services that threaten independence but can be performed with safeguards

The following nonaudit services create threats to independence. However, they can be performed if threats are documented, and safeguards applied to eliminate or reduce threats to an acceptable level.

- Preparation of accounting records:
  - determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval.
  - authorizing or approving the entity's transactions
  - preparing or making changes to source documents without management approval. (GAS 3.87)

- Preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records. (GAS 3.88)
- Other services related to preparing accounting records and financial statements:
  - recording transactions for which management has determined or approved the appropriate account classification or posting coded transactions to an audited entity's general ledger.
  - preparing certain line items or sections of the financial statements based on information in the trial balance.
  - posting entries that an audited entity's management has approved to the entity's trial balance.
  - preparing account reconciliations that identify reconciling items for the audited entity management's evaluation. (GAS 3.89)
- Performing internal audit activities for individual Deschutes County departments or elected offices:
  - setting internal audit policies or the strategic direction of internal audit activities.
  - performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
  - determining the scope of the internal audit function and resulting work. (GAS 3.96)
- Providing information technology services:
  - designing or developing an audited entity's financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement.
  - making other than insignificant modifications to source code underlying an audited entity's existing financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement.
  - supervising audited entity personnel in the daily operation of an audited entity's information system.
  - operating an audited entity's network, financial information system, or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an engagement. (GAS 3.102)
- Providing appraisal, valuation, or actuarial services when:
  - the services involve a significant degree of subjectivity.
  - the results of the service, individually or when combined with other valuation, appraisal, or actuarial services, are material to the audited entity's

financial statements or other information on which the audit organization is reporting. (GAS 3.104)

- Providing certain services:
  - Advisory service where management responsibilities are assumed.
  - Benefit plan administration: Making policy decisions on behalf of management; Interpreting the provisions in a plan document for a plan participant on behalf of management without first obtaining management's concurrence; Making disbursements on behalf of the plan; Having custody of the plan's assets; Serving in a fiduciary capacity, as defined under the Employee Retirement Income Security Act of 197424.
  - Business risk consulting: Making or approving business risk decisions; Presenting business risk considerations to those charged with governance on behalf of management.
  - Executive or employee recruiting: Committing the audited entity to employee compensation or benefit arrangements; Hiring or terminating the audited entity's employees.
  - Investment advisory or management; Making investment decisions on behalf of management or otherwise having discretionary authority over an audited entity's investments; Executing a transaction to buy or sell an audited entity's investments; Having custody of an audited entity's assets, such as taking temporary possession of securities. (GAS 3.106)

### iii. Excluded Nonaudit Services

The following nonaudit services are prohibited because they create threats to independence that are so significant, no safeguards can reduce them to an acceptable level. There are no constitutional or statutory requirements for the Office to conduct any nonaudit services. (GAS 3.84)

- Management responsibility for any nonaudit service. (GAS 3.78)
- Providing or supervising on-going monitoring of Deschutes County's system of internal control. (GAS 3.97)

### iv. Nonaudit Service Agreement

The County Internal Auditor and management will both sign an agreement outlining scope and responsibilities related to the nonaudit service. The agreement will include:

- The objectives of the nonaudit service;
- The services to be provided;

- Management acceptance of responsibility including: assumption of management responsibility, a designated person to oversee the service (preferably senior level management), responsibility to evaluate the services, and, responsibility for results; (GAS 3.76)
- The auditor's responsibility; and
- Any limitations on the provision of nonaudit services. (GAS 3.77)

The Office has created a template to use for this purpose.

## 4. Managing the Audit Process

### a. Audit Selection

Every two years, the County Internal Auditor submits a two-year Audit Work Schedule to the Audit Committee for approval. In forming and implementing the proposed work schedule, the County Internal Auditor will only include projects that comply with professional standards, applicable legal and regulatory requirements, and ethical principles; are within the Office's legal mandate or authority; and for which staff has the capabilities, including time and resources, to perform. (GAS 5.51)

This Audit Work Schedule should incorporate information from multiple sources including the Office of Internal Audit's assessment of significant risks to the organization and input from Management, the Audit Committee, and the Board of County Commissioners. The work schedule will include a proposal for auditing departments, offices, boards, activities, subcontractors, and agencies for the period. The work schedule may be amended through approval by the Audit Committee. Additionally, the County Internal Auditor (for cause) may spontaneously initiate and conduct any other audit deemed necessary. Any significant changes (an expectation of scope of work changing by more or less than 150 hours) to the work schedule for audit or non-audit projects should be approved in advance by the Audit Committee.

In the selection of audit areas and audit objectives, the determination of audit scope and the timing of audit work, the Office of Internal Audit should consult with external auditors so that the desirable audit coverage is provided, and audit effort is properly coordinated.

The Audit Work Schedule is posted on the Office's website.

### b. Planning

#### i. Project Assignment

The County Internal Auditor will assign staff to conduct audits or other functions based on the Audit Work Schedule. Considerations for assignments will include staff interest, availability, knowledge and experience, and opportunities for professional



development. Staff assigned must collectively possess the competence needed to address the engagement objectives and perform their work in accordance with government auditing standards. (GAS 4.02 and 4.03) When assigning staff, the County Internal Auditor will:

- assign auditors with the collective knowledge, skills, and abilities appropriate for the audit;
- assign enough auditors to the audit;
- provide for on-the-job training of auditors; and
- engage specialists when necessary. (GAS 8.31)

Where staff do not have the competence needed to conduct an audit, the County Internal Auditor can assign specialists to assist the team. The team should document whether the specialists are qualified and competent in their areas of specialization. (GAS 4.12)

#### ii. Audit Kick-off

After staff have been assigned, they will draft an audit start memo addressed to the department head or elected official responsible for the subject of the audit. It will include the auditors assigned to the project, the project supervisor, reference to the Audit Work Schedule, and links to any past related audits. Auditors can also host an audit kick-off meeting in addition to sending an audit memo. In either the memo or meeting, auditors should request for the following information:

- Whether any investigations or legal proceedings significant to the audit objectives have been initiated or are in process with respect to the period under audit;
- and should evaluate the effect of initiated or in-process investigations or legal proceedings on the current audit. (GAS 8.27)

#### iii. Survey Phase

During the survey phase, auditors will develop audit objectives and methods to achieve them. Auditors will conduct a review of the following program aspects and document them in a Survey Memo. (GAS 8.03)

- Background
- Internal control
- Information systems controls
- Provisions of laws, regulations, contracts, and grant agreements
- Potential fraud and abuse
- Ongoing investigations or legal proceedings

- The results of corrective actions meant to address previous findings and recommendations. (GAS 8.30)
- Whether other auditors have conducted or are conducting audits that could be relevant. (GAS 8.80)

Auditors will also conduct a Risk and Exposure Brainstorm to assess the risk of fraud and other risks. The brainstorm will include whether incentives/pressures to commit fraud, opportunities for fraud to occur, and rationalizations/attitudes that could increase the risk of fraud exist. (GAS 8.71) Assessing fraud risk is an ongoing process. If further information comes to light after objectives and methods are developed, auditors should add steps to determine whether fraud has occurred and how it affects findings. (GAS 8.72)

With this information auditors will determine potential objectives and methods to be addressed during fieldwork.

#### iv. Audit Plan

Auditors will document audit objectives, scope, and methods in an Audit Plan. (GAS 8.33 and GAS 8.135) The audit methods will be designed to reduce audit risk to an acceptably low level. (GAS 8.04) The Audit Plan should include an assessment of audit risk. The assessment of audit risk should be conducted throughout the audit and if the risk assessment changes, it may be necessary to change the objectives or methods. (GAS 8.05)

Methods should be designed to reduce audit risk and obtain enough evidence to provide a reasonable basis for audit findings and conclusions. (GAS 8.06) Methods should also be appropriate in the context of audit objectives. (GAS 5.54g) Approaches should include:

- methods to understand the nature of the program or program component under audit and audit results will be used. The nature and profile of a program include:
  - visibility, sensitivity, and relevant risks associated with the program under audit;
  - age of the program or changes in its condition;
  - the size of the program in terms of total dollars, number of citizens affected, or other measures;
  - level and extent of review or other forms of independent oversight;
  - the program's strategic plan and objectives; and
  - external factors or conditions that could directly affect the program. (GAS 8.36)

- finding suitable criteria. (GAS 8.07) Sources including provisions of laws, regulations, contracts, and grant agreements may have been identified during the Survey Phase. These will often become the criteria used for an audit finding.
- a plan to design and perform procedures to obtain reasonable assurance of detecting instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives. (GAS 8.68)
- whether or not internal control is significant to the audit objective. (GAS 8.39) If it is significant, auditors should include methods to obtain an understanding of (GAS 8.40) and an assessment of internal controls. (GAS 8.49) Assessment includes design, implementation, and/or operating effectiveness. (GAS 8.50 and GAS 8.52) Key controls are generally those identified in the planning phase, but changes to the determination of key controls may be made during fieldwork. (GAS 8.51) When significant internal controls depend on the effectiveness of information system internal controls, auditors should include these in their methods as well. (GAS 8.59) Auditors should document significant deficiencies in design, implementation, and/or operation. (GAS 8.53 and GAS 8.54)
- whether or not information systems controls are significant to audit objectives regardless of other internal controls. This evaluation includes the reliability of information. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives. (GAS 8.60) These methods will help auditors to determine whether evidence is sufficient and appropriate when developing findings and conclusions. (GAS 8.61)
- when evaluating information systems controls is an audit objective, auditors should test information systems controls to the extent necessary to address the audit objective. (GAS 8.62)
- in addition to methods to gather evidence related to criteria, condition, and internal control, auditors should develop methods to gather other evidence to ensure that the amount and type of evidence is sufficient and appropriate to address the audit objectives. (GAS 8.77)
- the nature and scope of specialist work of specialists (if auditors are planning to use them), including:
  - the objectives and scope of the specialists' work,
  - the intended use of the specialists' work to support the audit objectives,
  - the specialists' procedures and findings so they can be evaluated and related to other planned audit procedures, and
  - the assumptions and methods used by the specialists. (GAS 8.32)

#### v. Communication

After auditors select the audit objectives and methods, they should share the information with the department head or elected official responsible for the area being audited. (GAS 8.20) Auditors may communicate the information in writing or may host an end of survey meeting to discuss the information. If the audit topic will involve staff from other departments or elected offices, the auditors may want to share objectives and methods with them as well.

When it is not clear to auditors which department heads or elected officials are responsible, they should document the process they used to try to identify the appropriate parties and conclusions. (GAS 8.21)

Auditors should retain communications about audit objectives and methods in the workpapers. (GAS 8.022)

#### vi. Modifying Objectives

If auditors significantly modify objectives during the audit, they must document changes along with the reason for changes in an updated version of the Audit Plan. The new objective must be shared with the auditee. (GAS 5.55d)

#### c. Fieldwork

Fieldwork involves carrying out the Audit Plan.

Auditors will update the plan to reflect any significant changes. (GAS 8.33)

When auditors identify findings, they should plan and perform procedures to develop the criteria, condition, cause, and effect of the findings to the extent that these elements are relevant and necessary to achieve the audit objectives. (GAS 8.116) These procedures may be in addition to methods included in the Audit Plan.

When developing the cause of a finding, auditors should consider internal control deficiencies. (GAS 8.117)

Fieldwork should be documented in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed; the evidence obtained; and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. (GAS 8.132) This documentation should be prepared before an audit report is issued. (GAS 8.133) The form and content of documentation may vary with circumstances of the audit. The quantity, type and content of audit documentation are a matter of the auditor's professional judgment. (GAS 8.135) Auditors should document the work performed and evidence obtained to support

significant judgments and conclusions, as well as expectations in analytical procedures. Auditors will link conclusions to supporting evidence using the link function. (GAS 8.135) Audit documentation will be made available to other auditors and reviewers upon request according to record retention rules. (GAS 8.140)

When auditors do not comply with applicable Government Auditing Standards requirements, the auditors should document departures and the impact on the audit and conclusions. (GAS 8.136)

#### d. Evaluating Evidence

After evidence is gathered, it should be evaluated. Auditors should evaluate evidence using these standards.

- Auditors should determine whether evidence is appropriate. Appropriate evidence is relevant, valid, and reliable. (GAS 8.90 and GAS 8.91)
- Auditors should determine whether evidence is sufficient. Sufficient evidence is comprehensive enough to address objectives and support findings and conclusions. (GAS 8.90 and GAS 8.92)
- When auditors use information provided by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information. (GAS 8.93)
- When auditors use testimonial evidence, they should determine that evidence is objective, credible, and reliable. (GAS 8.94) An assessment of testimonial evidence is included in the interview memo template.
- Auditors should determine whether any lack of sufficient, appropriate evidence is caused by internal control deficiencies or other program weaknesses. If this is the case, it may be the basis for a finding. (GAS 8.78)
- If auditors use the work of another audit organization, they should request documentation of the organization's most recent peer review, (GAS 5.175) obtain evidence concerning the other auditors' qualifications and independence, and determine whether the scope, quality, and timing of the audit work performed by the other auditors can be relied on in the context of the current audit objectives. (GAS 8.81)
- If auditors use the work of a specialist, they should assess the independence of the specialist. (GAS 8.87) This might include documenting professional certifications, licenses or other recognition of competence, reputation and standing with peers, experience and previous work, and experience members of the audit team have had working with the specialist.

- Auditors should determine whether evidence is appropriate in the context of the engagement objectives. (GAS 5.54 g)

Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments performed to conclude on the validity and reliability of specific evidence. (GAS 8.108) The Findings Organization Form is used for this purpose.

When conducting the overall assessment, auditors should evaluate the expected significance of evidence to the audit objectives, findings and conclusions; available corroborating evidence; and the level of audit risk. If not sufficient or appropriate, the evidence should not be used as support. (GAS 8.109)

If auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, auditors should perform additional procedures, as appropriate and which may include:

- Seeking other sources of evidence;
- Redefining the audit objectives or scope to eliminate the need to use the evidence;
- Revising the findings and conclusions such that supporting evidence is sufficient and appropriate; and/or
- Determining the need to report limitations or uncertainties as a finding. (GAS 8.110)

#### e. Reporting

Auditors should issue a report communicating results after the completion of each audit. (GAS 9.06) The engagement report should include the objectives, scope, and methods. Reports should contain:

- Objectives, scope (including limitations and constraints), and methods of the engagement;
- As applicable, explain the relationship between the population and the items tested; identify entities, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitation or uncertainties.
- Engagement results, including findings, conclusions, and recommendations, as appropriate;
- Statement about the auditors' compliance with Government Auditing Standards;
- Summary of the views of responsible officials; and
- Nature of any confidential or sensitive information omitted, if applicable. (GAS 9.10)

#### i. Engagement Results (findings, recommendations, and conclusions)

A report should be prepared at the end of each audit engagement. In the audit report, auditors should present sufficient, appropriate evidence to support the findings and

conclusions in relation to the audit objectives. Auditors should provide recommendations for corrective action if findings are significant within the context of the audit objectives. (GAS 9.18)

Auditors should report conclusions based on the audit objectives and the audit findings. (GAS 9.19)

Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that noncompliance with provisions of laws, regulations, contracts, and grant agreements either has occurred or is likely to have occurred that is significant within the context of the audit objectives. (GAS 9.35) Items not significant within the context of the audit objectives but warrant attention of those charged with governance should be communicated in writing but not necessarily in the report. (GAS 9.36)

When feasible, auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Auditors should make recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified deficiencies and findings, and clearly state the actions recommended. (GAS 9.23)

Auditors should describe in their report limitations or uncertainties with the reliability or validity of evidence if (1) the evidence is significant to the findings and conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. Auditors should describe the limitations or uncertainties regarding evidence in conjunction with the findings and conclusions, in addition to describing those limitations or uncertainties as part of the objectives, scope, and methodology. (GAS 9.20)

Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the findings. To give the reader a basis for judging the prevalence and consequences of these findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately. (GAS 9.21)

When reporting on the results of their work, auditors should disclose significant facts relevant to the objectives of their work and known to them that if not disclosed could

mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices. (GAS 9.22)

When internal control is significant within the context of the audit objectives, auditors should include in the audit report (1) the scope of their work on internal control and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. (GAS 9.29) Auditors should report on the scope of internal control assessed to the extent necessary for report users to reasonably interpret the findings, conclusions, and recommendations in the audit report. (GAS 9.30)

When auditors detect deficiencies in internal control that are not significant to the objectives of the audit but warrant the attention of those charged with governance, they should include those deficiencies either in the report or communicate those deficiencies in writing to audited entity officials. If the written communication is separate from the audit report, auditors should refer to that written communication in the audit report. (GAS 9.31)

Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that fraud either has occurred or is likely to have occurred that is significant to the audit objectives. (GAS 9.40) Instances of fraud that are not significant within the context of the audit objectives but warrant attention of those charged with governance should be communicated in writing but not necessarily in the report. (GAS 9.41)

Auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse directly to parties outside the audited entity when, (a) entity management fails to satisfy legal or regulatory requirements to report such information to external parties, and/or (b) when entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse. (GAS 9.45) Auditors should comply with this even if resigned or dismissed from the audit prior to completion. (GAS 9.46) Auditors should obtain confirmation of the reporting by management to appropriate outside parties, if not corroborated they should report this information directly. (GAS 9.47)

## ii. Objective, Scope, Methods.

The report should include a section outlining audit objectives, scope, and methods. Auditors should communicate audit objectives in the audit report in a clear, specific, neutral, and unbiased manner that includes relevant assumptions. To avoid potential misunderstanding, when audit objectives are limited but users could infer broader



objectives, auditors should state in the audit report that certain issues were outside the scope of the audit. (GAS 9.11)

Auditors should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that report users can reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of, or excessive delays in, access to certain records or individuals. (GAS 9.12)

Reporting on methods should include:

- The work performed to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify entities, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors' overall assessment of the sufficiency and appropriateness of the evidence in the aggregate. (GAS 9.13)
- How the audit work supports the audit objectives, including the evidence-gathering and evidence-analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives. Auditors should identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when the results of sample testing significantly support the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population. (GAS 9.14)

### iii. Compliance Statement

Auditors should include a statement that the audit was conducted in accordance with generally accepted government auditing standards in the objectives, scope, and methods section. When all Government Audit Standards are met, the audit report will include an unmodified compliance (GAS 2.16-2.17a, 9.03):

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. (GAS 9.03)

If any auditing standard was not followed during the audit, it should be disclosed in the objectives, scope, and methods section of the report along with the reason for the noncompliance and possible impacts on the audit results. The report may use a modified Government Auditing Standards statement. (GAS 2.17b, 2.18-2.19, 9.05) The modified statement should include either (1) the language in paragraph 9.03, modified to indicate the requirements that were not followed, or (2) language indicating that the auditors did not follow Government Auditing Standards. (GAS 9.05)

In addition to citing Government Auditing Standards, auditors may also cite the use of other standards in their reports when they have also met the requirements for citing compliance with the other standards. Auditors should refer to the other set of standards for the basis for citing compliance with those standards. (GAS 2.11)

#### iv. Official Responses

Deschutes County Policy #GA-15, Responding to report, study and engagement recommendations, requires departments and elected offices to provide a copy of external audit or consultant reports to the Office of Internal Audit and provide a written response to internal audit reports within a reasonable time frame.

The internal audit report will include these written comments unless the Office of Internal Audit chooses to summarize for length. (GAS 9.50) When the responsible officials provide oral comments only, auditors should prepare a summary of the oral comments, provide a copy of the summary to the responsible officials to verify that the comments are accurately represented, and include the summary in their report. (GAS 9.51) The Office of Internal Audit reserves the right to comment on all provided comments. The report may be revised if new information comes to light through the comments. (GAS 9.52)

If the audited entity refuses to provide comments or is unable to provide comments within a reasonable time, the auditors may issue the report without receiving comments from the audited entity. In such cases, the auditors should indicate in the report that the audited entity did not provide comments. (GAS 9.53)

#### v. Distribution of Reports

Auditors should make audit reports available to the public, unless distribution is specifically limited by the terms of the engagement. (GAS 9.56)

The primary method of communicating engagement results will be in writing. Any verbal communications (without subsequent inclusion in a written report) should be documented in writing in the workpapers. (GAS 9.07) These would generally be minor findings or findings that do not appear to be significant or systemic.

Auditors will send reports to leadership of the department or elected office being audited, members of the Board of County Commissioners, members of the Audit Committee, and the County Administrator. Unless there are restrictions on report distribution, the report will also be posted on the Office of Internal Audit website and shared with an email distribution list that includes people involved in the audit and other people who have subscribed to receive audit reports. (GAS 9.58)

Under Oregon law, certain information will not be disclosed to the public. If information is not disclosed, the report should indicate this and under what statute. The County Internal Auditor will maintain the confidentiality of certain information accumulated under their position whether by Oregon law, HIPPA, or other professional requirements. When in doubt as to the release of this information, the County Internal Auditor will seek assistance from County Counsel. (GAS 9.61)

When circumstances call for omission of certain information, auditors should evaluate whether this omission could distort the audit results or conceal improper or illegal practices and revise the report language as necessary to avoid report users drawing inappropriate conclusions from the information presented. (GAS 9.62)

When the audit organization is subject to public records laws, auditors should determine whether public records laws could affect the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. Auditors use judgment to determine the appropriate means to communicate the omitted information to management and those charged with governance considering, among other things, whether public records laws could affect the availability of classified or limited use reports. (GAS 9.63)

#### vi. Additions After Reporting

If, after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the entities requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional audit work necessary to either reissue the report, including any revised

findings or conclusions, or repost the original report if the additional audit work does not result in a change in findings or conclusions. (GAS 9.68)

#### vii. Terminated Engagements

If an engagement is terminated before it is completed and no audit report is issued, auditors should document the results of their work to date and why it was terminated. (GAS 5.55c and 8.20-8.24) The documentation will be reviewed by the County Internal Auditor and will be discussed with the Audit Committee and the auditee. A report may be prepared if there is work to be reported on.

#### f. Follow-up

About nine months after the report has been issued, Auditors will follow up with management to determine the status of recommendations. Instructions for conducting an audit follow-up are included in the Office's Standard Operating Procedures.

Follow-up work is not considered non-audit services unless expressly stated. Follow-ups generally only constitute gathering and reporting on information provided by management.

## 5. Administrative Policies and Procedures

### a. Record Keeping

#### i. Time Reporting

Time records assist the Office of Internal Audit in analyzing the type and extent of work in areas. All auditors will keep a log of time by project and in sufficient detail so that work progress may be assessed and reported. Auditors will use the Timekeeping spreadsheet for this task. More details about using the Timekeeping spreadsheet are in the Office's Standard Operating procedures.

#### ii. Documentation

Information prepared, collected, and used in the audit process is retained in the form of work papers. Documentation of the work performed, results obtained, and conclusions reached is assembled on a timely basis and is appropriately maintained and retained to meet the needs of the audit organization and comply with professional standards, independence requirements, and applicable legal and ethical requirements. (GAS 5.54f)

Work paper preparation begins in the administrative and planning phases of the engagement and ends with issuance of the final audit report. Work papers provide a

systematic record of work performed and include the evidence obtained to support the auditor's findings and conclusions. In addition, work papers serve as the connecting link between fieldwork and the written report. Lastly, work papers aid the County Internal Auditor in supervising the engagement and allow for review of audit quality.

Whenever possible, copies of source documents or original analyses should be included in the work papers. Note that records, data, and other documents received from an outside source should be labeled to indicate the source and date received. When data is obtained electronically from the auditee, the data file should be retained as it was when received, without additions or deletions by the auditor. Analysis should be done with a copy of the file, and both the original and the copy should be clearly labeled to distinguish them. When source documents are too voluminous to be incorporated, the auditor should copy only relevant data and include samples of documents to facilitate a reviewer's understanding of the auditor's work.

While work papers should be complete, they should also be as concise as possible and restricted to matters that are significant and relevant to the engagement objectives. In addition, it is important that work papers be neat, clear and legible.

Auditors have some flexibility in formatting their work papers, but generally, each work paper should contain the following information:

- The title of the engagement
- A heading of the topic discussed or reviewed
- The purpose of the work paper
- The participants (including their titles) or the source of the information
- A summary or conclusion where appropriate

### iii. Record Retention

The Office of Internal Audit retains work papers in accordance with County document retention guidelines. The State of Oregon retention guidelines for Counties sets the following retention rules (see [Oregon Administrative Rule 166-150-0005](#):

- Audit Reports—Permanent
- Audit Workpapers—Ten years
- Contracts—Six years after expiration
- Policy and Procedure Guidelines and Manuals—Permanent
- Professional Membership Records—Three Years
- Professional Accreditation Records—Retain current and one previous cycle
- Requests and Complaints—Two years after last action

Records will generally be kept in electronic format either on the shared drive. Hard copies are stored in the County Internal Auditor's Office but may be transferred to County Archives due to filing and space limitations. Audit reports will be stored on the [County official electronic archiving system](#).

The County Internal Auditor is responsible for authorizing destruction of any workpapers whether they be in paper or electronic format. When records are authorized for destruction, efforts will be made to destroy all copies of those maintained.

The schedules described in this section allow sufficient time to permit those performing monitoring procedures and peer review to evaluate its compliance with its system of quality management. (GAS 5.134)

#### iv. Confidential Information

In some cases, auditors will use records that include confidential information that is exempt from public disclosure. Records may contain confidential information, such as personally identifying information or confidential tax information.

If auditors receive confidential information, it must be stored in AutoAudit or if it is in hard copy, it must be kept in a locked drawer. Auditors will not store copies of files in alternate locations (e.g. local computer file, personal computer, or Universal Serial Bus (USB) drive). Sensitive or confidential information will be labeled as such in work papers (including the file name) and restricted from public access. Information that is highly sensitive will be removed from the working papers, destroyed, or returned to the originating department or elected office as appropriate when the audit report is published. Instead of retaining the records, summary working papers that do not reveal specifics about sensitive or confidential information will be retained by the Office. If an auditor determines that further restrictions may be needed, these restrictions should be discussed and approved by the County Internal Auditor.

Auditors may participate in training, obtain certification, or sign confidentiality agreements to gain access to the information, if this training or agreement is also required of the department or elected office employees to access the information. Auditors should not agree to any restrictions not required of the department or elected office's employees that would limit auditors access to information.

Some interview subjects will request confidentiality to speak freely about issues of concern related to management without fear of retribution. In that case auditors will inform the interviewee that they will make every effort to keep the interview

confidential but cannot guarantee confidentiality if ordered to disclose the information by the courts. Notes will be labeled as confidential and include the reason the person requested confidentiality.

Details about the disclosure and use of substance use disorder patient records (42 CFR) and Criminal Justice Information Security information are included the Office Standard Operating Procedures.

## b. Communication

### i. Audit Feedback Surveys

Each audit report includes a link to a survey for reader feedback. The purpose of the survey is to help evaluate the quality of audit services and to identify any opportunities for improvement. The survey includes questions pertaining to overall satisfaction. It is acknowledged that not every auditee will be a satisfied customer. Results are included in the Office's performance measures. Detailed instructions for setting up a survey are included in the Office's Standard Operating Procedures in the Customer Survey section.

### ii. Public Record Requests

The State of Oregon has strong laws pertaining to public access to government records. The policy in Oregon is that the public is entitled to know how the public's business is performed, and any written record of the public's business is, with some exceptions, available to any citizen. All requests should be directed to the County Internal Auditor. The County Internal Auditor will notify the County Counsel. If the record was provided by an auditee, the County Internal Auditor will notify the department head or elected official to determine whether there are any exemptions that protect the document from release.

ORS 192.345 (36) provides a temporary exemption for disclosure in the case of information prior to release of the final audit report. In general, "in-process" audit work will not be considered public record, because it is incomplete, inconclusive, and can give the wrong impression.

Most documents prepared by the Office of Internal Audit are open to public inspection. However, some documents are exempt from public inspection and can be withheld or parts of it may be redacted. Questions regarding what is, or is not, subject to disclosure should be answered by County Counsel. If review and redaction will take a significant amount of staff time, the request may require a charge for the labor. These costs should be contracted for before the effort is incurred. These costs may be waived by the County Internal Auditor.

Because of Oregon's strong public records law, good judgment and discretion in preparing work papers, especially interview write-ups, should be exercised. For instance, comments by interviewees, which are shared "off the record", may be accessible to the public if included in an interview write-up.

### iii. Media Requests

Communication with the media is normally handled by the County Internal Auditor and requests for information from the media should be directed to them. Auditors should respond promptly and completely but limit their remarks to information presented in the published audit report. They should refrain from giving subjective opinions, which are not supported by documentation in working papers.

## c. Calendar

### i. Annual Calendar

January	<ul style="list-style-type: none"><li>• County Internal Auditor conducts Annual Quality Assessment.</li><li>• Global Follow-Up Report released.</li></ul>
February	<ul style="list-style-type: none"><li>• Audit Committee meeting.</li></ul>
March	
April	<ul style="list-style-type: none"><li>• Audit Committee meeting.</li></ul>
May	
June	<ul style="list-style-type: none"><li>• Audit Committee meeting includes presentation from external auditors about the audit plan.</li><li>• Annual Audit Plan adopted (every other year).</li></ul>
July	
August	<ul style="list-style-type: none"><li>• Audit Committee meeting.</li></ul>
September	
October	<ul style="list-style-type: none"><li>• Audit Committee meeting.</li></ul>
November	
December	<ul style="list-style-type: none"><li>• Audit Committee meeting includes presentation from external auditors about their work on the County financial statement.</li><li>• Audit committee reviews budget proposal for the following fiscal year.</li></ul>

### ii. Other Considerations

- Peer review is conducted once every three years.
- Audit committee member terms are for two years and are renewable.



#### d. Consultants

The Office may hire consultants to provide expertise if needed for a particular audit topic. Auditors should document the work to be performed (GAS 8.32) through the following steps:

- Discuss the nature and scope of work needed with the County Internal Auditor
- Consult the procurement to determine the method of solicitation
- Propose a procurement approach to the County Internal Auditor for approval.

Staff must ensure that service providers who are subject to the independence and legal and ethical requirements to which the Office and its engagements are subject understand the independence and legal and ethical requirements that apply to them and fulfill their responsibilities in relation to the independence and legal and ethical requirements that apply to them. (GAS 5.47b)

Once a consultant is selected, auditors must ensure that a representation of independence is on file. Other issues to consider are confidentiality and ownership of any completed work product.

## 6. Retention

This manual should be retained permanently. This complies with Oregon Public Records law and allows enough time for peer reviewers or others performing monitoring procedures to evaluate the extent to which the Office of Internal Audit complied with these procedures. (GAS 5.132)