

## **INTERNAL AUDIT DEPARTMENT**

Having an internal audit department is an important control feature to ensure that proper controls are in place to safeguard, manage, and account for assets of the municipality and ensure compliance with applicable state and federal laws. When considering whether your municipality should create an internal audit department, a cost/benefit analysis should be done. For those municipalities that have an internal audit department, our concern is whether the internal audit department is actually performing an internal audit function and is doing it in accordance with the Institute of Internal Auditors standards. The following provides guidance in creating an internal audit department or matters to consider if you already have an internal audit department:

### Audit Committee Policy Statement

The audit committee should have a policy statement that details the oversight responsibilities and expectations that it has relating to the internal auditing department. A policy statement would provide the basis for the internal auditing department's audit charter and for evaluating the activities of the department.

### Audit Charter

An audit charter should include the specific functions and responsibilities of the internal auditing department. The audit charter should, among other things, have the following:

- Clearly describe to whom the internal auditor reports to functionally and administratively and describe this process in sufficient detail so all parties will know exactly what is expected. To provide for the independence of the internal auditing department, the internal auditor should report administratively to the mayor and have direct communication with the audit committee.
- Provide that the audit committee must concur with the appointment or removal of the internal auditor (independence is enhanced when this is in place). The audit committee policy statement should include this provision.
- Include specific performance measures for the internal auditing department that will be reported at least annually to the mayor and the audit committee. The audit committee policy statement should include that they will evaluate the performance measures of the internal auditing department annually.
- Provide that the internal auditor submits a periodic activity report to the audit committee. The activity report should include significant audit findings and recommendations, any substantial changes from the approved audit plan, and other information of interest to the audit committee.
- Provide that the internal auditor schedule the nature, timing, and extent of follow-up procedures as part of developing the audit department's audit plan.
- Describe the specific support to be provided to the independent post auditors.
- Require that the internal auditor attend all audit committee meetings. In addition, some meetings should be scheduled without management present. The absence of management provides the audit manager the opportunity to discuss audit matters in a forum unaffected by pressures from management.

- Include a provision that the audit charter be reviewed by the internal auditor on an annual basis for any significant changes in the municipality's policies and current audit practices.

#### Scope of Internal Auditor's Work

The scope of the internal auditor's audit work should include all operations of the municipality where there is a risk of financial exposure, potential for loss, and when there are major changes in operations, programs, systems, and controls.

#### Audit Plan

After the internal auditor identifies auditable activities, he/she should identify the relevant risk factors and rank the relative significance for each auditable activity. After all auditable activities are listed and prioritized, the internal auditor should prepare the audit plan. The annual audit plan should include (1) the activities to be audited; (2) when they will be audited; and (3) the estimated time required.

#### Computer-Assisted Audit Techniques

The internal auditor should use computer-assisted audit techniques (CAATs) and continuous auditing (automated testing that is imbedded in the routine municipality system processing) as part of his/her overall audit responsibilities.

#### Quality Assurance Review

A quality assurance review of the internal audit department should be conducted at least once every five years by a qualified reviewer or review team independent of the municipality.

**Details:** Also, for additional information on internal auditing, go to [www.theiia.org](http://www.theiia.org).

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