



INTERNAL AUDIT

POLICIES AND PROCEDURES

OPERATING MANUAL

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1. INTRODUCTION

Introduction to the Audit Manual

The purpose of the Internal Audit Policies and Procedures Operating Manual (Audit Manual) is to provide a written summary of the audit processes employed by the Internal Audit Department (the Department). The document provides guidance for the planning, execution, reporting and follow-up procedures for the Department and its staff.

Objective and Scope of Audit Services

The objective of the Department is to provide independent and objective assurance, consulting, and investigation services designed to add value, improve operations and help the Coast Community College District (CCCD) accomplish its objectives. Internal Audit staff is expected to adhere to this document, as it will help bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work is to assist the CCCD Executive Leadership Team, the Audit and Budget Committee, and the Board of Trustees (Board) to fulfill its oversight responsibilities by evaluating whether risk management, control, governance processes and information systems are appropriately designed and operating as intended to manage key risks.

Conformance with IIA Auditing Standards

Activities of the Department are conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards) and other auditing standards, as applicable.

Authority

The Department derives authority to conduct audits from the CCCD Charter, which is located within Board Policy / Administrative Procedures (BP/AP) 6400. The Charter defines the purpose, authority, and responsibility of the Department's activities. The Department is authorized to engage in independent audit programs, risk assessments, advisory services, and investigations, as well as to coordinate audit efforts with external auditors. The Charter establishes the Department's position within the organization and allows unrestricted access to CCCD records for any matter within the Department's scope of responsibilities.

Independence and Objectivity

IIA Standards require that the Department's activity be independent and Internal Audit staff be objective in performing their work. For independence, the Chief Audit Executive (CAE) must report to a level within the organization that allows the Department's activity to fulfill its responsibilities. Note that the CAE for CCCD is the Director of Internal Audit, and this position reports to the Chancellor.

In order to maintain independence and objectivity, Internal Audit staff must have an impartial, unbiased attitude, avoid any conflict of interest or perception of conflicts of interest, and must not perform projects under the following instances:

- Any situation that involves a member of the auditor's immediate family;
- Any activity that the auditor previously performed or supervised unless a reasonable period (a minimum of 1 year) has elapsed;
- Any activity to which the auditor previously provided advisory services unless a reasonable period (a minimum of 1 year) has elapsed;
- Any activity that the auditor has authority over or has responsibility for; and
- Any situation in which other conflict of interest or bias is present or may reasonably be inferred. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the Department.

To ensure compliance with IIA independence requirements, Internal Audit staff will document whether or not any impairment exists for conducting the current Audit Plan by signing *the Internal Auditor's Annual Independence Statement* at the beginning of each fiscal year. Projects that arise during the year, that were not part of the original audit plan, require a separate Independence Statement for each auditor involved.

While the Department's function is independent from all other areas of CCCD operations, situations may arise whereby there is an apparent or actual impairment to independence and objectivity. In those circumstances, the CAE will report the apparent or actual impairment to the Chancellor and will take action when necessary to resolve the issue. In those situations whereby the independence and objectivity of the Chancellor may also be impaired, the facts will be reported to the Audit and Budget Committee Chair, the Board President and/or General Counsel, who is not impaired to resolve the issue.

Conformance with IIA Code of Ethics – Principles and Rules of Conduct

The Department adheres to the Institute of Internal Auditors (IIA) code of ethics and Board Policy 3050 – Code of Professional Ethics, which applies to all CCCD employees.

2. ANNUAL STRATEGIC WORK PLAN AND RISK ASSESSMENT

Introduction

The IIA Standards and CCCD Charter require the Department to establish a risk-based approach to determine the priorities for Department activities. The CAE prepares an annual Audit Plan and Risk Assessment to help identify, measure, and prioritize potential audits based on the level of risk to CCCD. The Risk Assessment results, with input from CCCD's Leadership Team (management), the Board, and other District stakeholders, is utilized in preparing the annual Audit Plan. The purpose of the annual Audit Plan is to outline the work to be performed and is designed to cover high risk activities while limiting the scope of work to what can realistically be accomplished during the upcoming fiscal year.

The annual audit planning process includes the following major audit planning activities:

- Defining the Audit Universe
- Conducting a Risk Assessment
- Preparing the Annual Strategic Work Plan
- Presenting the Annual Strategic Work Plan

Defining the Audit Universe

The first step in preparing the Annual Strategic Work Plan and Risk Assessment is to define the Audit Universe. The Audit Universe is a listing of all District and campus departments, and the potential risks associated with those business activities.

Conducting the Risk Assessment

The Department performs the following activities to garner risk information:

- Interviews with the Board, Chancellor, Vice Chancellors, Campus Presidents, Vice Presidents, Fiscal Directors;
- Presentations to Chancellor's Cabinet, President's Cabinet, Faculty and Classified Senates, Student Government Meetings;
- Impromptu meetings (staff communicates a risk idea to the Department);
- Other observations (as garnered from participation in other District meetings, audits or consulting engagements, investigations);
- Professional organizations (risks identified within audit or higher education industries);
- Stakeholder surveys; and
- Other research and analysis as relevant.

Preparing the Annual Strategic Work Plan

At the District, the Annual Plan is referred to as the Annual Strategic Work Plan (the Plan). The CAE develops and prepares the Plan by considering the high risk activities identified in the Risk

Assessment, input from management regarding risk concerns, and the Department's required activities outlined in the Charter.

The Plan is designed to cover high risk activities, while limiting the scope of work to what can realistically be accomplished during the fiscal year considering the limited audit resources available. The Plan should be shared with the external financial statement auditor to receive feedback and minimize any duplication of efforts.

Presenting the Annual Strategic Work Plan

The final draft of the plan is discussed with the Audit and Budget Committee, Chancellor, and the Leadership Team. The final Plan is presented to the Audit and Budget Committee for review and approval. After Audit and Budget Committee approval, the Plan is provided to the Board for review and approval.

In addition to the Plan, the CAE also presents a report on the accomplishments achieved by the Department throughout the course of the year. This report is called the Annual Accomplishment Report and includes the following:

- Projects completed
- Staff who achieved certifications
- Publications and/or speaking engagements
- Training provided to District personnel
- Number of hours worked on each project

3. TYPES OF ENGAGEMENTS

In order to provide comprehensive services and comply with auditing standards, the Department provides the following services:

Assurance and Audit Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, system security, and due diligence engagements.

Consulting and Advisory Services

The nature and scope of consulting and advisory services are agreed with the client. These services are intended to add value and improve an organization's governance, risk management, and control processes without the Internal Audit staff assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Follow Up Reviews

A review of selected prior audits and/or specific recommendations made by internal and external auditors to determine the extent to which action plans as agreed to by management were implemented.

Investigations

Independent evaluations of allegations related to fraud, waste, abuse, or other wrongdoing and improper activities that may involve misuse or misappropriation of District resources.

4. WORK PAPERS

Elements of a Work Paper

All work papers should stand alone. That is, it is not appropriate to draw conclusions in a work paper based upon work that was performed in a different work paper. The elements of a work paper, known as the SPPRC's, are:

Source: The source of the information under review. Examples of potential sources include, but are not limited to:

- Name and date prepared/revised of a document;
- Name of system, data extraction date/time; and
- Name, title, and contact information of a person.

Purpose: The purpose of a work paper must demonstrate it is related to the objective. During project planning, most work papers will have Purpose Statements related to gaining an understanding of processes, controls, and risks. Purpose statements should NOT state, "to document..." In order for the work to be considered a work paper, there must be analysis. During Fieldwork, the purpose is generally "to determine compliance with criteria" or "determine the extent to which internal controls are working".

Procedures: The methodology used to perform the work. The step by step process to create a work paper, perform data analysis, etc. The procedures should be written such that an experienced auditor could replicate the work. It is not possible to perform procedures utilizing a source that is not listed in the work paper.

Results: Information that was garnered/learned from the procedures. It is not possible to document results from procedures that are not listed in the work paper.

Conclusion: The overall summary of what was learned as a result of the work performed. The conclusion answers the purpose. It is not possible to draw a conclusion on results that are not listed in the work paper.

The risks and controls matrix created during the planning stage should be updated during fieldwork as information is gathered to accurately reflect the key risks and the mitigating controls, and the scoping documents should be updated to reflect the actual procedures used and deemed necessary. At the conclusion of fieldwork, the procedures performed to test the controls and the potential findings to be included in the draft report are summarized and cross-referenced to the detailed work papers.

Elements of a Finding

Findings may involve deficiencies in internal control; non-compliance with provisions of laws, regulations, contracts, or grant agreements; fraud; or abuse. As part of an engagement, when auditors identify findings, auditors should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the objectives. The elements of a finding are as follows:

Criteria: The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

Condition: Condition is a situation that exists. The condition is determined and documented during the engagement.

Cause: The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors must assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

Effect or potential effect: The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or

potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

Evidential Matter

Evidential matter obtained during the course of fieldwork provides the documented basis for the auditor's opinions, observations, and recommendations as expressed in the report. Internal Audit staff are obligated by professional standards to act objectively, exercise due professional care, and collect sufficient, competent, relevant, and useful information to provide a sound basis for observations and recommendations.

Types of Evidence: If the evidence supports the basic tests of sufficiency, competence and relevance, it may be used to support the auditor's finding. The following outlines the different types of evidence obtained during the course of a project:

- Physical evidence obtained through observation and inquiry;
- Testimonial evidence from interview and statements from involved persons;
- Documentary evidence consisting of legislation, reports, minutes, memoranda, contracts, extracts from accounting records, formal charts and specifications of documentation flows, systems design, operations and organization structure; and
- Analytical evidence secured by analysis of information collected by the auditor.

5. ADMINISTRATIVE PROCEDURES AND FORMS

The Department uses TeamMate, an electronic work paper software, to document its work. Various forms and templates have been created to facilitate staff ability to prepare work papers timely and efficiently. However, as these are templates, they are meant to serve as guidance. Staff is expected to modify the forms and templates as needed to meet project objectives.

At the start of an engagement, a project file is created within TeamMate and on the Internal Audit shared drive. The Department's shared drive holds the forms which are used for planning, executing and reporting on the engagement. Instructions for which forms to use can be found within Teammate itself on the Policy tab, as well as on the group share in the TeamMate folder.

Projects conducted by the Department, whether audits, consulting engagements, or investigations, have administrative tasks that must be accomplished. These tasks include:

- Team Kick Off
- Independence Statement
- Engagement Letter
- Budget and Milestones
- Supervision and Communication

- Project Closeout

6. AUDIT PROCESS

Introduction

The Department focuses on five general areas of CCCD operations:

- **Effectiveness of operations and controls** – Activities are performed adequately to produce the desired or intended results, and controls to mitigate risk are adequate and operating as intended.
- **Efficiency of operations** – Activities are performed economically with minimal wasted effort or expense.
- **Safeguarding of resources and information** – Prevention of loss of assets or resources, whether through theft, waste, abuse, or inefficiency, and protection of confidential information.
- **Reliability of reporting and data** – Reports provide management with accurate and complete information appropriate for its intended purpose. It supports management's decision making and monitoring of the entity's activities and performance.
- **Compliance with applicable policies, procedures, laws, and regulations** – Activities are conducted in accordance with relevant policies, procedures, laws and regulations.

The process encompasses the following five stages:

- A. Planning
- B. Fieldwork
- C. Reporting
- D. Quality assessment
- E. Follow-up

A. Planning

The work begins with planning how a project is to be executed. Internal Audit staff determine the appropriate and sufficient resources to achieve the objective(s) based on an evaluation of the nature and complexity of each engagement and time constraints. Planning consists of researching the area or activity to be examined and identifying areas of intended focus.

In planning a project, items that must be considered include:

- The objectives of the area/activity and the means by which the area/activity controls its performance;
- The criteria established by management to determine whether objectives and goals have been accomplished;
- The significant risks to the area/activity, its objectives, resources and operations and the means by which the potential impact of risk is mitigated to an acceptable level;
- The adequacy and effectiveness of the governance, risk management and controls processes compared to a relevant framework or model (best practices); and
- The opportunities for making significant improvements to the governance, risk and control processes.

An assessment on the necessary knowledge, skills or competency should be determined prior to performing an engagement. This includes an evaluation of the risk of fraud, key information technology risk and controls, and available technology-based audit techniques.

During the planning phase, a detailed internal planning document should be prepared to include the results of the initial research of an area or auditable activity, and should describe any specific issues or areas of focus. The relevant systems, records, personnel, and physical properties should be considered when planning the scope of the project. The detailed planning document should identify key risks, controls and related procedures and provide background information relating to the auditable area or activity that will assist the auditor during the project.

The planning process culminates in the creation of a work program (scope document), which will be presented for discussion to the staff in charge of the process under review. The scope document details in general terms, the objectives, the type, approach, and extent of work that the Department intends to perform, and the corresponding timeframes for completion. Scope documents are specifically tailored to the areas under examination and are designed to be flexible in their usage; procedures may be added or removed depending on the extent of work deemed necessary or appropriate during the project.

A risks and controls matrix will be prepared to identify the relevant risks' exposures (including the risk of fraud) and the corresponding controls used to mitigate those risks for the area/activity being audited. The controls reviewed may include those used to achieve strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations, policies, procedures, and contracts. This analysis assists Internal Audit staff to focus on organizational risks.

At the completion of the planning phase, the risks and controls matrix should be reviewed by management and staff responsible for the area/activity being audited. This review validates the accuracy and completeness of the identified risks and mitigating key controls.

Prior to the start of fieldwork, the Department will communicate the details of the scope document with representatives of the area and to discuss any questions or concerns, or any specific areas that they would like to have examined. This communication potentially yields additional information that provides the Department with a greater understanding of the area or activity to be audited.

In conjunction with the above, the following steps should be completed within Teammate:

Entrance Conference

After the Engagement Letter is distributed, an Entrance Conference is scheduled with the client to review the project objectives, scope and timeline. If a document request was provided with the Engagement Letter, the Entrance Conference serves as an opportunity to obtain documents and/or check the status of the outstanding request for information. Otherwise, Internal Audit staff should provide the document request at the time of the Entrance Conference. The Entrance Conference should be scheduled no more than 2 weeks after the Engagement Letter is sent.

Document Request

The Document Request is used to track the requests made of the client for information. It is important to document what was requested, to whom the request was made, the date requested, and the date received so that when auditors need to follow up, there is a record. This document should be updated throughout the course of the project by Internal Audit staff responsible for making the specific request. It is expected that all staff working on the project contribute to this work paper, but the team lead is responsible for ensuring it is updated and finalized (signed off) when finished.

Document Reviews

Documents received may not “fit” into the scope of the other templates provided for the Planning procedures. For example, if documents are received that are related to criteria, those should be documented in the Criteria Matrix (see below). No work paper template exists for document reviews, therefore auditors should rely on the elements of a work paper to guide the documentation of their work.

Background

Background information is typically gathered prior to the Entrance Conference. Internal Audit staff should gather pertinent information about the program or operation under review in order to provide context for the project. Background information is also used in the reporting phase, to provide the reader perspective for the program or operation under review.

Prior Audits

A review of prior audits, if available, may help identify risks or findings that may be relevant to the upcoming client/engagement.

Criteria Matrix

Criteria are the rules, regulations, and practices that the program under review should be following. The Criteria Matrix template is designed to facilitate the documentation of the various types of criteria that may be applicable to the project. The Matrix enhances the ability to analyze and identify criteria that would result in significant exposure/risk if non-compliant.

Planning Interviews (multiple templates)

Planning interviews are used to gather information to help understand risks and controls as they relate to the project. Pertinent stakeholders and key personnel with roles and responsibilities directly related to the program under review are identified. During planning interviews, Internal Audit staff learns about specific program details and processes, IT systems in use, the existence of internal policies, procedures, or other practices, the extent to which staff is trained and supervised. Relevant process owners should provide a detailed explanation of the business process. This process will be documented in the work paper files. Such documentation may take the form of a narrative description, a flowchart depiction, or a combination of both when appropriate.

Combined, these elements assist the Department in identifying the risks and controls, which in turn facilitate the completion of the risk assessment.

Consolidated Interviews Matrix: This template is used when interviewing multiple people and asking the same questions. The Matrix helps streamline the documentation of interview results and facilitates comparative analysis between responses.

Risk Background-General/Risk Interviews: This template is used when interviewing different key stakeholders about the program under review. Choice of template is at the auditor's discretion; however, the Risk Background-General template may also be used to complete a document review, if pertinent and applicable.

Risk Interviews IT: This template is used when conducting a risk-related interview specific to Information Technology systems and/or databases used within the scope of the project objectives.

Internal Audit staff should maintain awareness of fraud, waste, and abuse during the interview process. It is appropriate to ask fraud-related questions during the interviews. The interviewee should be alone, without presence of a supervisor, when asking fraud-related questions. Fraud-related questions should be asked of both management and staff level employees. Refer to the Fraud Interviews template for additional guidance.

Fraud Brainstorm

The Director or Internal Audit staff should conduct a fraud brainstorm meeting with Internal Audit staff prior to conducting interviews with key staff and stakeholders. The purpose of the Fraud Brainstorm is to review information garnered from background research, criteria, document reviews, and prior audits and determine what risks exist related to the program under review, including the potential for fraud, waste, and/or abuse.

Sample Fraud Questions: This template may be used as a starting point for generating potential questions to ask during planning interviews. In addition, in the event that separate meetings are held with key stakeholders (one meeting dedicated to specific program questions and a second meeting dedicated to specific fraud questions), this template may be used as a guide to documenting the results of fraud-specific interviews.

Risk Assessment Matrix

The Risk Assessment is a process by which auditors summarize the risks and controls identified throughout the course of planning, an engagement. Professional judgment is used to assess the likelihood of the risk occurring as well as the adequacy of any mitigating controls. During the risk assessment process, the key risk items are identified and potential fieldwork procedures are designed for testing purposes.

End of Planning Summary

During the Entrance Conference, it is expected that Internal Audit staff will determine the extent to which the audit client would like updates on the project status. Generally, these updates occur bi-weekly, however, some clients may prefer weekly updates. In addition, it should be determined if the client prefers email updates or in-person updates. Depending upon a) what is resolved during the entrance conference and b) the types of issues identified during planning, it may be appropriate to hold a formal End of Planning meeting, first with the engagement team, including the Director, and possibly with the applicable Vice President/President, Vice Chancellor and/or Chancellor, prior to discussing the results of planning with the client.

B. Fieldwork

This stage of the process involves executing the procedures described in the scope documents. Consideration is given to the underlying risks of the business or activity being reviewed and how those risks are managed or mitigated. Policies, procedures, and processes should be evaluated for appropriateness and whether they are operating as intended. While no specific templates exist for documenting Fieldwork, the Issues Log template is used to document issues and findings that are identified throughout the course of the project. As with Planning work papers, staff is expected to use elements of a work paper to document the work.

Tests of operating effectiveness will also be performed. For the automated processes, it is considered appropriate and sufficient to perform a single walkthrough as results should not differ without human intervention. However, in those situations whereby the process is manual and subject to human intervention, additional testing is required.

The samples for testing control activities should be independently selected. Where possible, the population of items to be considered for testing should be obtained from a source that is independent of the area audited.

The sample size should be determined as the lesser of 10% of the population or 30 items, or based on a statistical sampling model when appropriate. In selecting the sample, the following sampling approaches may be used:

- Simple Random Sampling – A sampling method where all items have an equal chance of being selected. The sample should be selected without intentional bias to include or exclude certain items in the population. A random number generator may be used to select the sample.
- Stratified Random Sampling – A method of sampling that involves the division of a population into smaller groups formed based on shared attributes or characteristics. A random sample from each group is taken in a number proportional to the group's size when compared to the population. These sample subsets are then pooled to form a random sample.
- Judgment Selection – A sampling method that is based on professional judgment. The following considerations may be used to determine items to be selected:
 - Value of items. Items that represent larger values or more significant transactions are selected.
 - Relative risk. Items prone to error due to their nature or complexity are given special attention.
 - Representativeness. Besides value and risk considerations, the auditor should be satisfied that the sample provides breadth and coverage over all types of items in the population.

The basis for selecting items for testing should be documented within the work paper files.

When assessing the adequacy of the business control process, Internal Audit staff should consider whether the following control objectives have been met:

1. Authorization – Controls should include processes and procedures to ensure that only authorized transactions take place.
2. Validity – All recorded transactions should be valid. The internal control process should include processes and procedures to preclude the inclusion of fictitious or non-existent transactions in the books and records.

3. Completeness – The control processes and procedures must prevent the omission of transactions from the records.
4. Valuation and Risk Measurement – Internal controls must include policies, processes and procedures that prevent errors in measuring and recording transaction amounts and the resulting risks.

In general, if errors or omissions are noted during the initial walkthroughs or testing (findings), further testing should be performed to determine whether the errors were isolated in nature or whether there is a more systemic problem inherent to the control environment. The potential issues identified should be discussed with process owners to validate the factual accuracy, to determine root cause, and identify any compensating controls.

Root Cause Analysis is an integral part of the process used when assessing the impact of findings. It is used to identify why the issue occurred so that an appropriate recommendation can be made to resolve the control gap. Root cause analysis will ultimately improve the longer-term effectiveness and efficiency of business processes and thus, the overall governance, risk, and control environment.

During fieldwork, the project team should identify, analyze, evaluate and document sufficient, reliable, relevant, and useful information to achieve the objectives. This evidence gathered will be documented in the work papers and used as the basis for the conclusions made and the reported results of the project.

C. Reporting

Using the report template, a draft report containing significant findings and observations should be prepared at the end of each engagement. This includes any significant risk exposures, control issues, fraud risks, or governance issues. The report should be accurate, objective, clear, concise, constructive, complete, and timely. The draft report will be cross referenced to supporting work papers in order to demonstrate sufficient and appropriate evidence for the conclusions.

The report should include the objectives, the scope of work performed, an overview of the business or activity, an opinion on the adequacy of the internal controls, conclusions regarding significant finding and observations, and recommendations to management to address any issues found. A report should also acknowledge when satisfactory performance is determined.

The detailed draft report will be provided to management with direct responsibility over the area audited prior to the exit conference. After feedback is received, Internal Audit staff determines whether the report needs to be amended. Feedback includes management's responses to findings and recommendation. Internal Audit staff then finalizes the report and distributes the document to the Chancellor and management responsible for the activity under examination. During the next quarterly meeting, the final report is distributed to the Audit

and Budget Committee, and after acceptance, the final report is submitted to the Board at the next Board Meeting.

When an external peer reviewer performs a quality assessment and verifies that IIA Standards have been met for the audit engagement, the following statement will be included in the report: "This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors."

When a quality assessment determines non-conformance with IIA Standards, the definition of Internal Auditing, or the code of ethics for a specific engagement, the following will be disclosed in the report: a) The specific areas of non-conformance. b) The reasons for non-conformance. c) The impact of non-conformance on the engagement and the communicated engagement results.

Before releasing an internal report publically, the following should be considered:

- Assess the potential risk to the organization;
- Consult with management and legal counsel; and
- Control dissemination by restricting the use of the results.

Once the final report has been issued, it is included in the audit work paper file together with the documentation of all relevant work performed.

If an audit report that has been issued is later found to contain a significant error or omission, an amended report should be distributed to all parties that received the original report.

D. Engagement Quality Assessment

The purpose of the Engagement Quality Assessment process is to provide verification that the work performed by the Department meets the requirements outlined in the Audit Manual and is in compliance with IIA Standards. A Quality Assessment Checklist will be completed at the conclusion of each project to verify compliance with the Audit Manual and IIA Auditing Standards.

E. Follow-up

Follow-up work is performed after the completion of a project. It entails Internal Audit staff determining whether the weakness in procedures or processes identified in previous Internal Audit reports have been adequately corrected in accordance with the management response and committed timelines. In addition, Internal Audit staff will also follow up any on recommendations issued by external auditors, as needed.

All recommendations arising from the Department's engagements are summarized in an audit recommendations Excel file. Any information obtained as part of the follow up process, is electronically retained in a Follow Up file on the Internal Audit share drive. A review of the

status of all prior recommendations should be completed on a periodic basis and presented to the Audit and Budget Committee and to the Board.

7. GOVERNANCE AND CONSULTING ACTIVITIES

Introduction

The IIA Standards have several requirements regarding governance and consulting activities performed by Department. This section provided operating procedures to comply with these requirements.

Governance

The IIA Standards state that the Department's activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization;
- Coordinating the activities of and communicating information among the Board, external and internal auditors, and management.

The IIA Standards also state that the Department's activity must:

- Evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.
- Assess whether the information technology governance of the organization supports the organization's strategies and objectives.

The Department should consider and assess these governance requirements during assurance and consulting engagements when appropriate and make recommendations to address any deficiencies identified.

Consulting Engagements

The IIA defines consulting service activities as advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without Internal Audit staff assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Investigations

Work covering special concerns as requested by management, the Board, the Audit and Budget Committee, or an appropriate State or law enforcement agent, is usually in response to a perceived concern with one person's or work unit's compliance with CCCD policy, State statutes, or both. Investigations may contain implications or suggest action involving civil or criminal action. Applicable standards of the Institute of Internal Auditors or Association of Certified Fraud Examiners will be used to perform all investigations. Due to the nature of investigations, report formats are different than audit reports and each report will be uniquely different as determined by the specifics of the investigation. Investigation reports will generally include some, but not necessarily all, of the following elements: background, executive summary, scope, approach, findings, summary, impact, or recommendations.

These projects are conducted to identify existing control weaknesses, assist in determining the amount of loss and recommend corrective measures to prevent additional losses. The Department may also work with outside agencies to determine if misconduct occurred. These types of investigations can encompass misuse of funds or assets, fraud, potential conflicts of interest, waste of resources, and/or abuse of power or resources.

8. QUALITY ASSURANCE AND ADMINISTRATION

Introduction

The purpose of this section is to provide information regarding the Department's quality assurance procedures, professional development, and administrative duties regarding records maintenance and retention.

Quality Assurance and Improvement Program

The purpose of the Quality Assurance and Improvement Program (quality assurance) is to provide verification that the work performed by the Department meets IIA Standards. In addition to the ongoing Engagement Quality Assessments performed at the completion of each engagement, a formal quality assurance self-assessment of the Department's conformance with the IIA Standards should be performed annually.

To complete the assessment, the Department should review any changes in the IIA Standards, practice advisories and implementation guidance, and assess their impact on the operations of the Department. Other steps that should be performed include:

- Review all Engagement Quality Assessments performed during the prior year and change audit procedures as necessary to correct any issues identified;
- Review the End of Project Client Surveys relating to the performance evaluation of the Department's and change procedures as necessary to correct any issues identified; and
- Review and update the Audit Manual to improve efficiency and ensure compliance with IIA Standards.

The results of the annual quality assurance self-assessment will be presented to the Audit and Budget Committee and to the Board.

The IIA Standards also require an external quality assurance peer review be completed at least once every five years. The Department will obtain the required external quality assurance peer review. The results of the peer review assessment will be documented in a report prepared by the peer review team, and is presented to the Audit and Budget Committee and to the Board.

Annual Review of Audit Charter and Organizational Independence

The IIA Standards require the CAE to periodically review the Internal Audit Charter and present it to senior management and the Board for approval. The IIA Standards also require the CAE to confirm the organizational independence of the Department's activity to the Board at least annually. These reviews will be formalized in a report to executive management, the Audit and Budget Committee, and the Board. Recommendations will be provided to correct any non-compliance issues identified.

Retention and Custody of Records

Project files consist of all documentation that has been gathered during the course of an audit, consulting engagement, or investigation. Since the Department uses Teammate and stores some project files on the group share drive, these records are considered the official record of the project. In order to determine whether documentation is retained, consideration is given to the quality, usefulness, and relevancy of the materials. At a minimum, there should be sufficient documentation to be able to provide justification for the assessment and conclusion within audit reports.

Physical files are maintained in the CAE's office and electronic files are located on the Department's share drive, which is backed-up daily by the IT Department. Project files, whether physical or electronic, are retained for seven years subsequent to the date of the reports issued. Final reports are considered a public record and are retained indefinitely. Certain documents and records may be retained for longer or shorter periods of time, in order to comply with California state laws and regulations, as well as CCCD Board Policies and Administrative Procedures.

Work papers and documents maintained for assurance and consulting engagements are internal documents and are not subject to disclosure to unauthorized personnel. In general, they should be considered confidential and strictly controlled by the CAE before and after an engagement. Material related to an investigation may be exempt from disclosure under attorney-client privilege.

Although some records may be subject to disclosure on state law, approval from the Chancellor and legal counsel should be obtained before providing work papers or records to other employees and personnel within CCCD or external third parties, including the public.