A Discussion of Auditing

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Overview of Types of Audits

EXTERNAL AUDITS – Financial statement opinion and grant compliance audits performed by independent, outside auditor (CPA firm) as required by law. COT engagement is bid every five years. Currently performed by McGladrey Pullen for the City of Tulsa.

<u>Applicable audit standards</u>: AICPA Generally Accepted Audit Standards, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book), U.S. Office of Management and Budget Circulars. Focus: financial statement attestation.

<u>INTERNAL AUDITS</u> – Audits of an organization's operations, risk management, control and governance processes. Internal audits are performed by auditors employed by the organization to perform the internal audit activity.

<u>Applicable audit standards</u>: Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

<u>Focus</u>: Efficiency and effectives of operations, reliability of financial reporting, deterring and investigating fraud, safeguarding of assets and compliance with laws, regulations, policies and procedures.

REGULATORY AUDITS – Grant compliance audits performed by Federal &/or State audit agencies, primarily HUD for CDBG grant funds administered by COT.

<u>Applicable audit standards</u>: U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book), U.S. Office of Management and Budget Circulars.

Focus: Grant compliance.

FINANCIAL AUDITS – Audits of financial statements to express an opinion on whether the financial statements accurately and fairly present the financial condition and financial results of an organization. The scope of a financial audit includes safeguarding of assets, compliance with laws and regulations and accuracy and reliability of accounting data and information.

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<u>Applicable audit standards</u>: AICPA Generally Accepted Audit Standards and for governments U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book).

<u>Focus</u>: Accuracy of financial statements.

<u>MANAGEMENT AUDITS</u> – A detailed audit that concentrates on analysis and evaluation of management procedures and the overall performance of an organization. A management audit is undertaken to discover weaknesses and to institute improvements within the organization. May also be called operational audits or performance audits.

<u>Applicable audit standards</u>: AICPA Generally Accepted Audit Standards, Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book).

<u>Focus</u>: Improvement of organizational performance and achievement of organizational goals and objectives.

<u>OPERATIONAL AUDITS</u> – An operational audit tests an organization's internal systems and procedures used to produce its goods and services. These audits test production operations for efficiency and effectiveness. Operational audits are usually a deeper review of organization operations than a financial audit.

Applicable audit standards: AICPA Generally Accepted Audit Standards, Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book).

<u>Focus</u>: Improvement of policies, procedures, processes and controls to increase economy and efficiency of operations.

PERFORMANCE AUDITS – Audits of governmental program results and economy and efficiency. Currently there is no dedicated, on-going performance audit function at the City of Tulsa. Performance auditing is a prerogative of the Mayor and Council that was intentionally excluded as a Charter duty and authority of the City Auditor to prevent a politically motivated City Auditor from attacking performance of the Mayor. Charter authority for performance auditing is with the Mayor and City Council. Performance auditing is not a Charter duty of the City Auditor. The City Auditor may only conduct performance audits as required by ordinance or resolution of the Council &/or request by the Mayor.

<u>Applicable audit standards</u>: U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book).

<u>Focus</u>: Value for money in the public sector.

REVENUE AUDITS - Audits of various revenues of City of Tulsa. Performed by various positions in the executive branch or public trusts. Revenue Auditor positions in Finance Department Treasury Division performs Hotel/Motel tax audits, sales tax monitoring and review of franchise tax returns. Concessions Auditor at the Airport performs audits of concessionaires & fixed base operator contractors where a portion of their business revenues are due to the City by contract for operations at the Airport. Note: City of Tulsa personnel do not audit businesses for sales tax collections and relies on the Oklahoma Tax Commission for such audits according to contract with the OTC.

<u>Applicable audit standards</u>: Typically these types of audits are not required to conform to professional audit standards and are based on specific contractual or legal authority.

Focus: Revenue collection.

<u>INVESTIGATIVE AUDITS</u> – An audit that is based on suspicion of wrong-doing involving fraud, theft, embezzlement, defalcation, ethics violations or other irregularity. Investigative audits usually concentrate on specific aspects of the work of a department or individual.

Applicable audit standards: Not defined by professional audit standards but may be conducted according to AICPA Generally Accepted Audit Standards, Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book) or specific contractual or legal authority.

<u>Focus</u>: Determination of whether wrong-doing occurred, the extent of any loss incurred and how the incident occurred in order to make recommendations for improvement of policies, procedures or internal controls to prevent future recurrence.

FORENSIC ACCOUNTING/AUDITS – Forensic accounting or financial

forensics is the specialty practice area of accountancy that describes engagements that result from actual or anticipated disputes or litigation. "Forensic" means "suitable for use in a court of law", and it is to that standard and potential outcome that forensic accountants generally have to work. Forensic accountants, also referred to as forensic auditors or investigative auditors, often have to give expert evidence at the eventual trial.

Some forensic accountants specialize in forensic analytics which is the procurement and analysis of electronic data to reconstruct, detect, or otherwise support a claim of financial fraud. The main steps in forensic analytics are (a) data collection, (b) data preparation, (c) data analysis, and (d) reporting.

Applicable audit standards: May be conducted according to AICPA Generally Accepted Audit Standards, Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book) or specific contractual or legal authority.

<u>Focus</u>: Application of accounting methods to the tracking and collection of forensic evidence, usually for investigation and prosecution of criminal acts such as fraud or embezzlement.

<u>COMPLIANCE AUDITS</u> – An audit to determine whether requirements of laws, regulations, policies, procedures, standards, contracts or established practices are being followed.

Applicable audit standards: May be conducted according to AICPA Generally Accepted Audit Standards, Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book) or specific contractual or legal authority.

<u>Focus</u>: Determination of whether compliance occurred and in instances of non-compliance to make recommendations for improvement policies, procedures or controls to prevent future non-compliance with applicable requirements.

<u>FOLLOW UP AUDITS</u> – An audit conducted after an internal, external or regulatory audit report has been issued. Follow up audits are designed to evaluate corrective or improvement action that has been taken on the audit issues reported in the original audit report.

Applicable audit standards: May be conducted according to AICPA Generally Accepted Audit Standards, Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing, U.S. General Accounting Office Generally Accepted Governmental Audit Standards (Yellow Book) or specific contractual or legal authority.

<u>Focus</u>: Evaluation of the effectiveness of corrective or improvement actions taken on audit report recommendations.

<u>CITY AUDITOR/ INTERNAL AUDITING</u> – Financial, operational, compliance and follow up audits of accounts and inventories of City departments, divisions, boards, authorities, commissions and agencies specified as Charter duties of the City Auditor. City Charter does not state City Auditor duty or authority for audits of City contractors. City Auditor may conduct audits of city contractors as requested or approved by the Mayor, provided the contract contains a "right to audit" clause.

<u>Applicable audit standards</u>: Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.

<u>Focus</u>: System of internal controls-accountability, safeguarding, efficiency and effectiveness.