



## CHESTERFIELD COUNTY ADMINISTRATIVE POLICIES AND PROCEDURES

**Department:** Internal Audit  
**Subject:** Introduction

**Policy Number:** 8-1  
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### I. INTRODUCTION

The County of Chesterfield, Office of Internal Audit (O.I.A) was established as an independent review and evaluation service function to conduct and evaluate financial, and performance audits of programs, functions, and activities as a service to County and School management.

The Internal Audit Director (Auditor) reports to the County Administrator, School Superintendent, and the County and School's Audit and Finance Committees (AFCs). The Auditor also provides periodic internal audit reports and updates to the Board of Supervisors and School Board through their respective AFCs. Annual performance review feedback for the Auditor is provided from elected officials via their representatives on the Audit and Finance Committees, and through the County Administrator and School Superintendent.

**Independence** – To be independent in fact and appearance, auditors must be free from conflicts of interest and free from interference in how the work is conducted and reported. The Auditor will comply with Government Auditing Standards to identify, safeguard against, or report threats to independence.

The Audit Director has no direct authority over other persons in the organization whose work he/she reviews. Such authority is vested in the Department head. Further, his review and evaluations do not in any way relieve other persons in the organization of the responsibilities and accountability for duties assigned to them.

Complete objectivity is essential to the audit function. The Auditor, therefore, should not develop and/or install procedures, prepare records, or engage in any activity, which he/she would normally expect to review.

**Management Support** – The organizational status of the Auditor and the support of his function by County and School Management provides the benchmark for the success of the internal audit program. The Auditor must have access to management at all levels to ensure adequate consideration and satisfactory resolution to all comments, recommendations and findings.

**Unique Creation and Update Process for Internal Audit Administrative Policy and Procedure** – County Administrative Policy (CAP) 09-01, County Administration – Administrative Policies and Procedures establish guidelines for creating, updating, and rescinding County Administrative Policies and Procedures. Based on Internal Audit's organizational placement, Internal Audit administrative policy and procedure creation or updates use an alternate approval process to CAP 09-01. Internal Audit policies will be evaluated at least annually for potential update during the Joint (County and School) AFC's first calendar year meeting. Internal Audit will provide recommended administrative procedure creation or update to the County Administrator and School Superintendent, and present to the Joint AFC for approval.

### II. OBJECTIVES AND SCOPE

The Auditor shall have responsibility to conduct audits of all County and School departments, agencies, and activities as stipulated by County Code Chapter 6.12 to independently and objectively determine whether:

- A. Activities and programs being implemented have been authorized by either the Board of Supervisors, School Board, County Administrator, School Superintendent, state or federal law or regulations and are being conducted and funds expended in compliance with applicable laws;
- B. The department, office, or agency is acquiring, managing, protecting, and using its resources, including public funds, personnel, property, equipment, and space, economically, efficiently, equitably, and effectively and in a manner consistent with the objectives intended by the authorizing entity or enabling legislation;
- C. The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices;
- D. The desired result or benefits are being achieved;
- E. Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of any funds, revenues, and other resources;
- F. Management has established adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls; and,
- G. During the course of audit work, there are no indications of fraud, waste, abuse or illegal acts.

### III. ANNUAL AUDIT PLAN

- A. At the beginning of each fiscal year, the Auditor shall submit a proposed annual audit plan to the County Administrator, School Superintendent, and the AFCs for review and input. This proposed audit plan will be presented for approval by the AFCs. The plan shall include the departments, offices, boards, activities and agencies scheduled for audit during the year. This plan may be amended during the year after review with the County Administrator/School Superintendent. Additionally, the Auditor may initiate and conduct any other audit deemed necessary to undertake.
- B. In the selection of audit areas, the determination of audit scope and the timing of audit work, the auditor may consult with the County's external auditors, Deputy County Administrators, School Division Chiefs and Department Heads so that desirable audit coverage is provided, and audit effort may be properly coordinated. Proposed audit plan will allocate resources between County and School projects proportionate to the auditable unit population.
- C. **Risk Assessment** – Internal Audit in developing or revising its Annual Audit Plan shall conduct a County-wide risk assessment. This allows Internal Audit to systematically evaluate risks related to auditable units. It also provides for an audit frequency for each auditable unit based upon a calculated risk score and other relevant factors. Auditable units and the assessed risk levels are subject to change over time.
- D. **Audit Follow-up** – On an annual basis, the Auditor will furnish the County Administrator, School Superintendent and AFC with a summary of all material unresolved comments, recommendations and management responses.

### IV. SPECIAL EXAMINATION

The AFCs, County Administrator, School Superintendent, Deputy County Administrator, School Division Chief or Department Head may request the Auditor to perform special examinations or unplanned audits that are not included in the annual audit plan. The Auditor will determine the performance of requested items based on audit plan priorities, professional standards, available staff, and resources.

## V. AUDIT PROCESS

- A. The Office of Internal Audit will make every effort to inform the auditee about an upcoming audit and be flexible in scheduling. Factors such as auditee's seasonal workload, or other issues, will be taken into consideration when scheduling audits and developing the timetable for completion. This notification will take the form of an **Entrance Conference Memorandum** that will outline the general scope, objectives of the audit, a proposed timetable for completion, request for general information, and the responsibility of the Auditor and Department Head. This memorandum will be sent to the Department Head at least two weeks in advance of the Entrance Conference.
- B. At the **Entrance Conference**, the auditee and the auditor will discuss approaches and expectations about the way the audit will be conducted. The Auditor will also determine whom management designates to receive Point Sheets. The Auditor will then conduct a **Survey**, which enables the Auditor to gain a working understanding of the mission, operations and functions of the entity or function being audited.
- C. The **Fieldwork** will commence after completion of the survey. The fieldwork stage involves testing of transactions, vouching of account balances, and evaluation of administrative and internal policies and procedures and other audit procedures deemed necessary. The fieldwork is conducted generally within the general framework of generally accepted government auditing standards.
- D. Upon completion of any function or activity during fieldwork, the In-charge Auditor will prepare **Point Sheets**. Point Sheets are written documents which list: Criteria, Condition, Cause, Effect and Recommendation(s) for each audit finding. These point sheets will be provided as drafts to management and discussed. The auditor will document point sheet discussion with management, noting if there was agreement and describing any disagreements. Based on supporting information from management, the In-Charge Auditor may revise the draft findings and/or perform additional testing. The evaluation of the Point Sheets by management and concurrence by the In-Charge Auditor only represents acknowledgement that the issues were discussed. It does not indicate approval or any final commitment.
- E. An **Exit Conference** will be scheduled by the Auditor. At the Exit Conference, the auditee and the Audit Director will discuss each comment and recommendation. This conference provides an opportunity for the auditee to produce evidence that may result in changes due to material inconsistencies, omissions, and/or errors in the point sheets. It also provides for a sound evaluation of the recommendations in terms of cost/benefit, timetables for implementation, or other resources that the audit process may not have identified. The Exit Conference takes place after the issuance of all point sheets and discussion with management.
- F. Based upon the results of the Exit Conference, the Auditor will provide the auditee with a **DRAFT REPORT**, which will include revised comments and recommendations. The department must return the Draft Report with responses within 21 days from the draft report date. The Audit Director and auditee will then discuss this Draft with the appropriate Deputy County Administrator or School Division Chief when necessary. If material disagreement remains after this meeting, the Audit Director must document points of disagreement and will be responsible for mutually scheduling a meeting with the Auditee, County Administrator or School Superintendent, and /or appropriate Deputy County Administrator or School Division Chief to resolve the issues.
- G. The last stage will result in the issuance of a Final Audit Report. The report will include:
  1. An Executive Summary to summarize the audit for top management and an Auditor's Opinion (if necessary),

2. A precise statement of the objectives and scope encompassed by the audit, as well as, some background information,
3. A statement that the audit was performed in accordance with generally accepted government auditing standards,
4. A statement of material and immaterial audit findings, including a statement of the underlying cause and evaluative effects,
5. A statement that internal control systems were examined, and report of any material weaknesses found in the internal control systems,
6. Statements of response submitted by the audited department or agency relevant to the audit findings,
7. A concise statement of corrective actions taken or contemplated as a result of the audit findings and a time table for their accomplishments,
8. Recommendations for additional necessary or desirable action and follow-up procedures,
9. A statement disclosing, we are a department within Chesterfield County/Schools.

#### **VI. REPORT OF IRREGULARITIES/FRAUD**

If the auditor suspects violations of law or malfeasance, misfeasance, nonfeasance, or dereliction of duty by an officer or employee, the Auditor shall report such irregularities to the County Administrator or School Superintendent. If the irregularity is criminal in nature, the Auditor shall immediately notify the County Administrator or School Superintendent and the Commonwealth Attorney or Police in addition to those previously cited.

#### **VII. CONTRACT AUDITORS, CONSULTANTS, AND EXPERTS**

An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the governmental units or its officers. The Auditor will coordinate and monitor auditing performed by public accounting or other organizations employed under contract by the County to assist with audit related activities. Contracting for external audits will be awarded in accordance with established procurement procedures.

#### **VIII. ACCESS TO RECORDS AND PROPERTY (COUNTY CODE CHAPTER 6.12)**

All officers and employees of the County and School system as designated by the County and School Attorney shall furnish (within legal constraints) the Auditor with requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions and methods of business required to conduct an audit or otherwise perform audit duties. In addition, they shall provide access for the Auditor to inspect all property, equipment, and facilities within their custody. If such officers or employees fail to produce the aforementioned information, then the Auditor, subject to County Administrator's or School Superintendent's approval, may request a search to be made and exhibits to be taken from any book, paper or record of any such official or employee, excepting personal information, and every office having the custody of such records shall make a search and forward such requested information to the Auditor.

The Auditor shall retain in accordance with "the Commonwealth of Virginia Records Retention and Disposition Schedules" all audit reports, including examinations, investigations and reviews made. Audit work papers and other supportive material directly pertaining to the audit report will be retained for 8 years.

## **IX. AUDIT REPORT DISTRIBUTION**

- A. **Point Sheets** – Limited between In-Charge auditor and the auditee Management Designee.
- B. **Draft Report** – After Exit Conference, distribution will include Department Head, Assistant Department Head, and Audit Director.
- C. **Final Audit Report** – Distribution to the Board of Supervisors, School Board, Department Head, appropriate Deputy County Administrator, School Division Chief, and County Administrator or School Superintendent. Audit Director may send courtesy copies of appropriate sections to the Director of Accounting, Budget and Management, Human Resources, Information System Technology (IST) and other departments, if situations warrant Department Head will be notified before release.

## **X. PEER REVIEW**

The Internal Audit activities of the Auditor's office shall be subject to peer review at least once every three years by a professional, nonpartisan objective group utilizing guidelines endorsed by the Association of Local Government Auditors. A copy of the written report of this independent review shall be furnished to the County Administrator, School Superintendent and the AFCs.

The peer review will use generally accepted government auditing standards to evaluate the quality of audit effort and reporting. Specific peer review areas shall include staff qualifications, preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud, waste and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, staff qualifications, independence, due professional care, quality control, fieldwork, (♦ planning ♦ evidence ♦ internal control ♦ supervision ♦ legal and regulatory requirements) reporting, and presentation of Internal Audit reports.