



DESCHUTES COUNTY

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NEW AUDIT COMMITTEE MEMBER TRAINING

Version 1/2023

Agenda

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- Introduction
- Answer any questions or concerns
- Role of Audit Committees in Public
- Developing Effective Audit Committees
- Trends and Challenges

Introduction

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- **Materials provided**
 - Audit Committee - County Code 2.15
 - County internal auditor - County Code 2.14
 - Risk assessment process
 - 2022 2023 Internal Audit Work Plan (updated 1-2023)
 - Internal audit program goals & objectives
 - Post Audit Survey
 - Recent report

These are located on the audit committee resources page in the supporting documents section

Role of Audit Committees in Public Sector Governance

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- Audit committees can contribute significantly to the mission of achieving excellence in public sector governance
- The American taxpayers and funding sources continue to place greater importance on the integrity of financial and compliance reporting

Role of Audit Committees in Public Sector Governance

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The role of the audit committees is one of *proactive oversight* over the following:

- Audit processes
- Quality and timely financial and compliance reporting, process, and results
- Effective and transparent communication between audit committee, auditor, financial agencies, program implementers, and other stakeholders
- Internal accounting controls
- Budgetary and finance
- Reporting to state and local governing boards

Meetings-Duties-Relationships

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- Meets quarterly
(March, June, September, November(Dec/Jan))
 - Advisory
 - Principal focus of meetings:
 - ✦ Internal audit workplan (March/June)
 - ✦ Internal audit reports (Ongoing)
 - ✦ External audit scope (June)
 - ✦ Financial statements (November (Dec/Jan))
 - Interaction with outside auditors
 - Interaction with internal auditors
 - Interaction with management

Principal Audit Committee Activities

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- Recommend external auditor selection
- Monitor external and internal auditor independence
 - External auditor contract/RFP input
 - External auditor planning and communication for audits
- Oversee internal audit function
 - Approve audit workplan
 - Input on internal auditor performance
- Review annual financial statements and internal/external audit reports
 - Complete surveys at the end of internal audit reports

Audit Committee Functions

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- Review financial statement information
- Monitor County risk assessment and internal controls being instituted.
- Monitor establishment of an appropriate internal control framework.
- Monitor and advise on activities of the Internal Audit Program including
 - Internal audit ordinance
 - Internal audit workplan
 - Appointment or removal of internal auditor
 - Employee evaluations prepared by County Administrator
- Review reports to ensure significant deficiencies are addressed by management
- Participate in the selection and evaluation of the external auditors
- Assure coordination of internal and external auditing

Developing Effective Audit Committees

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- Whatever organizational structure, state and local governments should ensure that the expanding role of audit committees is effectively provided
- Every state and local government should not only establish a formal audit committee, but also make sure the audit committee works properly
- A properly designed audit committee promotes independence; facilitates communication between management, the auditors, and governing boards; and helps the government manage the audit

State and local audit committees must:

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- Recognize major issues and challenges within the current climate:
 - Ethics
 - Conflicts of interest
 - Regulatory and contractual compliance
 - Financial statements accuracy
 - Budgetary decisions and investment management
 - Existing regulations

State and local audit committees must:

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- Discern their own evolving and distinct role within their political and economic milieu and relationships with other entities in the oversight process
- Possess the expertise and experience in accounting, auditing, financial reporting, and finance needed to understand and resolve issues raised by the independent audit and effective oversight
- Promote independence, accountability and communication

Trends and Challenges

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- Limited internal audit resources
 - New performance auditor position
 - Non-audit work requests
 - Unplanned additions
- Increasing use of technology – data driven audits
- Increasing requirements from regulatory authorities
- Increasing exposure of and vigilance against exposing corporate fraud, financial scams and public scandals

Trends and Challenges

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- **Government Finance Officers Association:**
“Every government should establish an audit committee or its equivalent. Reliable audits are essential to the credibility of financial reporting by governments. The audit committee is a practical tool that a government can use to enhance the independence of the external auditor, and hence the reliability of the financial statement audit. “

Trends and Challenges

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- Challenging economic and regulatory environment:
 - Depleted revenue sources and increasing expenses
 - Balanced budgeting vs. continued and/or more services
 - Need to invest in a more robust future
 - Open to “innovative” solutions and “creative” accounting
- State and local governments under greater scrutiny on their ethics and compliance. Some moving towards environmental, social, and governance (ESG) topics.

Trends and Challenges

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- State and local audit committees need to recognize and understand the impact of today's economic challenges and regulatory environment
- Movement towards performance and benchmarks in the government environment

Internal Audit Process

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Planning / Survey

- meet with department, research the project, and develop initial objectives

Obtain general understanding of internal controls relevant to objectives

Develop an audit program (provides steps to accomplish audit objectives)

Fieldwork

- Interviews, documentation and analysis
- Transaction testing (system testing and ACL)

Findings and recommendations discussed

Audit report developed

- Discussion draft
- Resolve any questions or issues

Formal draft

Client response

Final report issued

Workplan issued / Survey sent to key participants

Follow-up (address implementation of recommendations): 9 months – 1 year after audit. Annual Global follow-ups of uncleared recommendations.

Internal Audit - Quality

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- Professional Standards followed:
 - Internal policies and procedures manual
 - ✦ Follow GAO standards (Yellow book)
 - ✦ IIA standards an option (Red book)
 - Assoc. of Local Government Auditors – Peer review every three years (9/21, 9/17, 9/14, 9/11, 9/08, and 10/05)
 - Auditee feedback process and checklists.
- Performance measures
 - Customer survey
 - % of recommendations agreed to by management
- Time tracking and reporting
- Recommendation follow-through

New Initiatives

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- Whistleblower reporting / hotline
 - Internal auditor leads through use of 24/7/365 contractor provided hotline
 - Human resource complaints sent directly to HR
- Succession planning

Questions?