

# Introduction to Audit

## NCBC/FCCA CONFERENCE

AOUSC OFFICE OF AUDIT

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WHAT AN AUDIT IS... OR IS NOT...

MYTHBUSTERS

# WHAT AN AUDIT IS... OR IS NOT...

## Myth #1

*AN AUDIT IS A MEASURE OF  
MANAGEMENT'S PERFORMANCE*

# WHAT AN AUDIT IS... OR IS NOT...

## PURPOSE OF AN AUDIT

- ❑ An audit is an official inspection of an individual's or organization's accounts, typically by an independent body
- ❑ The primary goal of an audit is to express an opinion on two aspects of the financial statements of an organization
  - The financial statements are fairly presented;
  - The financial statements are prepared and presented in accordance with the relevant standards
- ❑ An audit includes evaluating the internal control system to determine and report on whether certain controls are properly designed and operating effectively

# WHAT AN AUDIT IS.... OR IS NOT

- ❑ Judiciary audits are performed in accordance with:
  - *Generally Accepted Auditing Standards* (GAAS) promulgated by the American Institute for Certified Public Accountants (AICPA)
  - *Government Auditing Standards* as issued by the Comptroller of the United States Government Accountability Office (GAO), (Yellowbook)
  - *The Guide to Judiciary Policy*

# WHAT AN AUDIT IS... OR IS NOT...

## Myth #2

*AUDIT/AUDITORS ARE RESPONSIBLE FOR DEVELOPING  
POLICY AND DESIGNING INTERNAL CONTROLS*

# WHAT AN AUDIT IS... OR IS NOT.....

## MANAGEMENT'S RESPONSIBILITY

- In accordance with GAO's *Standards for Internal Control in the Federal Government* (Greenbook)
  - An entity's management is responsible for an effective internal control system by:
    - Setting the entity's operational and financial goals,
    - implementing internal controls
    - evaluating the internal control system
  - Management should implement control activities that assist in achieving its objectives through the development of policies and procedures
  - Management develops and maintains documentation of its internal control system

# WHAT AN AUDIT IS.. OR IS NOT....

## AUDITOR'S RESPONSIBILITY

- *Government Auditing Standards* (GAO Yellowbook) financial audit reporting requirements:
  - In accordance with the standards, auditors must gather enough evidence to:
    - Render an audit opinion on the financial statements
    - Report on internal controls over financial reporting
    - Report on compliance with laws and regulations



# WHAT AN AUDIT IS... OR IS NOT...

## Myth #3

*A CYCLICAL AUDIT IS A SUBSTITUTE FOR AN ANNUAL  
INTERNAL CONTROL SELF ASSESSMENT*

# WHAT AN AUDIT IS.. OR IS NOT....

## IMPORTANCE OF MANAGEMENT'S OWN EVALUATION

### ☐ Identify of Risk

- Identify risks both operational risks and financial risks throughout your organization

### ☐ Analysis of Risks

- What risks are present and would prevent the organization from achieving its operational and financial goals

### ☐ Respond to Risks

- Develop and implement internal controls that assist in mitigating or eliminating identified risks

# WHAT AN AUDIT IS... OR IS NOT...

## REQUIREMENTS FOR PERFORMING ANNUAL EVALUATIONS

### ❑ Guide to Judiciary Policy, Vol. 11

- All court units and FPDOs must evaluate the adequacy of internal control practices at least annually. These evaluations are a vital management tool to help ensure the efficiency and integrity of operations. They supplement the AO's cyclical audit program.

### ❑ GAO Greenbook states....

- Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- Management evaluates control through ongoing monitoring of the internal control system as well as any separate evaluations performed by both internal and external sources.
  - Separate evaluations also include audits and other evaluations that may involve the review of control design and direct testing of internal controls. These audits and other evaluations may be mandated by law and are performed by internal auditors, external auditors, and other external reviewers.
  - Separate evaluations provide greater objectivity when performed by reviewers who do not have responsibility for the activities being evaluated.

# WHAT AN AUDIT IS... OR IS NOT...

## Myth #4

*AUDIT FINDINGS ARE “STRIKES” AGAINST THE ORGANIZATION AND MANAGEMENT*

# WHAT AN AUDIT IS.. OR IS NOT....

## RESOURCES FOR ASSESSING AN INTERNAL CONTROL SYSTEM

- In accordance with GAO Greenbook, management has **primary** responsibility for assessing and monitoring controls, and should use other sources as a supplement to -- not a replacement for -- its own judgment. Sources of information include:
  - Management knowledge gained from the daily operation of agency programs and systems
  - GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products
  - Program evaluations
  - Audits of financial statements
  - Results from tests of key controls performed as part of periodic assessments

# WHAT AN AUDIT IS.. OR IS NOT....

## THIS IS WHAT AN AUDIT CAN DO FOR YOU

□ An audit provides:

- Reasonable assurance that management has presented a 'true and fair' view of its financial position
- Identifies weaknesses in internal controls
- Lends credibility to financial statements
- Provides unbiased, expert recommendations
- Provides information to management that is useful for ensuring accountability in financial management

# WHAT AN AUDIT IS... OR IS NOT...

## Myth #5

*CORRECTING AN AUDIT ISSUE DURING FIELDWORK  
ENSURES THERE WILL NOT BE AN AUDIT FINDING*

# WHAT AN AUDIT IS... OR IS NOT...

- In addition to the AICPA requirements for reporting, auditors comply with the requirements of GAO Yellowbook in presenting reports. These requirements include:
  - Reporting auditors' compliance with GAO Yellowbook
  - Reporting on internal controls and compliance with provisions of laws, regulations and policy
  - Communicating, in writing...
    - Significant deficiencies and material weaknesses in internal controls identified during the audit period;
    - Instances of fraud and noncompliance with provisions of laws or regulations and any other instances that warrant the attention of management;
    - noncompliance with provisions of contracts; and
    - abuse that has a material effect on the audit



# GENERAL TIPS FOR AUDIT PREPARATION

- Set the tone at the top emphasizing the importance of internal controls
  - CUEs have stewardship and fiduciary responsibility to safeguard public funds
  
- Establish and maintain well defined internal controls policies and procedures (IC procedures manual)
  - Internal controls should provide reasonable assurance that assets and resources are protected from loss, waste or abuse;
  - Business practices are in compliance with applicable laws and regulations
  
- Ensure that personnel policies and procedures are comprehensive, up-to-date and in compliance with Judiciary guidance
  
- Implement corrective action for any deficiencies identified during annual internal control self assessments

# GENERAL TIPS FOR AUDIT PREPARATION (CONT.)

- Keep abreast of changes to Judiciary policy, particularly to Vols. 11, 13, 14 and 19
  - Ensure information is communicated to responsible personnel
- Seek AO guidance from the applicable program office, if in doubt
- Ensure that documentation supporting transactions is complete and available upon request
- Ensure that the biennial physical sightings are conducted with the results appropriately documented
- Ensure that all delegations are current (i.e., PLO, contracting officers, custodial and disposal officers)
- Ensure that the all financial reports are prepared and submitted to the AO

# ADDITIONAL INFORMATION AND RESOURCES

# SIGNIFICANT AUDIT ISSUES

- ❑ Management Controls
  - Internal control self assessments not performed annually; not comprehensive and/or not adequately documented
  
- ❑ Procurement
  - The Court unit did not obtain or document the requisite approval for sole source transaction
  - Absence of required contracting delegations or documentation of delegations was not maintained
  - Lack of segregation of duties (i.e. Procurement Liaison and Contracting Officers)
  - The required number of bids were not obtained for transactions in excess of the competition threshold
  
- ❑ Tenant Alterations
  - Tenant alteration services acquired from vendors other than GSA

# SIGNIFICANT AUDIT ISSUES, CONT.

- ❑ Property
  - Physical sighting of accountable property not performed on a biennial basis
  - MPPRs contained inaccuracies and/or was not up-to-date
  - Lack of segregation of duties (i.e. custodial officer and contracting officers)
  
- ❑ Disbursements
  - Lack of obtaining or documenting the requisite approval for sole source transactions
  - Employee reimbursements exceed the policy thresholds
  
- ❑ Budget
  - Obligations are not recorded timely
  
- ❑ Deposit, Registry and Unclaimed
  - Eligible balances in the Deposit and Registry Funds are not transferred to unclaimed funds

# OFFICE OF AUDIT CONTACT INFORMATION

- Phone - 202-502-1000
- E-mail - AOdb\_Audit Office/DCA/AO/USCOURTS
- JNet resources -
  - <http://jnet.ao.dcn/resources/reports-and-publications/oversight-internal-controls-and-audit/internal-controls-and-audit>

# KEY AO PROGRAM OFFICE CONTACTS

Internal Control Policy	Robin Trevillian	202-502-1300
Budget Questions	Leslie Malinowski	202-502-2319
Property Management	Darcelle Coward	202-502-1562
Travel Help Desk		202-502-1290
Court Interpreters	Javier Soler	202-502-3261
Procurement Policy	Beth Youse	202-502-2305
Accounting Policy	Patrick Nyero	202-502-1295
Human Resources Policy: Advisory Services Branch		202-502-3180