

## *City of Milwaukee – Inspector General* *Fundamentals and Standards*

I am providing you with some information to assist you in understanding the audit process, your responsibilities and the manner in which I serve the City.

### **Why perform an internal audit?**

Internal audits provide essential accountability and transparency over government programs. Given the current challenges facing governments and their programs, the oversight provided through auditing is crucial. Through objective analysis, government auditing provides the information needed by stakeholders and the public to: maintain accountability; improve performance and operations; reduce costs; stimulate programs; and identify current and projected issues. An audit can apply to an entire organization or to a specific function, process, production step, or system.

### **What is an internal audit?**

An internal audit is an initiative to independently monitor, analyze, and examine business operations, transactions or information systems in order to determine how well they conform to a set of specific criteria (policies, procedures, best practice, standards, regulations, ordinance, requirements, etc.). Audit criteria are used as a specific reference against which audit evidence is compared.

### **What is an internal control?**

Internal controls are the policies and procedures in place to help achieve management and organizational goals and objectives. Controls encourage: efficiency; compliance with laws; regulations; policies; procedures; best practice standards; and the elimination of fraud, waste and abuse.

- The position of Inspector General is responsible for independently assessing the adequacy and effectiveness of the internal controls, identifying control weaknesses, and reporting recommendations for improvement.

### **Internal Audits Are Defined by their Objectives and Scope:**

- **Objectives:** The objectives are what the audit is intended to accomplish. They identify the audit subject matter, performance aspects to be included in the review and may also include the potential findings and reporting elements that the auditor expects to develop. Audit objectives are questions that auditors seek to answer based on the evidence obtained and assessed against specific criteria.
- **Scope:** Audit scope is the boundary of the audit and is directly tied to the audit's objectives. The scope defines the subject matter that the auditors will assess and report on; and can include a description of the physical locations, organizational units, activities, processes and types of information used, as well as the time period covered during an audit.

### **Internal Audit Best Practice and Standards:**

Audits are conducted in accordance with Generally-Accepted Government Auditing Standards (GAGAS) which require that an audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives<sup>1</sup>. Per best practice and standards:

- One of management's fundamental responsibilities during an audit is to provide the inspector general with all requested records, reports and supporting information relevant to the performance of the audit.

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<sup>1</sup> GAO, *Government Auditing Standards*, GAO-12-331G (Washington, D.C.: December 2011).

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- Additionally, City management is solely responsible for the implementation and execution of well-designed and effective internal controls over City operations and processes; in short, the inspector general may not assume the roles and duties of City management including the development or implementation of management’s corrective action plans.

### **The Inspector General’s Process:**

Audits and projects are identified via a request from City management, the Mayor, Common Council, and City departments; as well as potential areas of risk identified through other avenues.

I first familiarize myself with the operations, systems, organization, department or business unit prior to the performance of formal audit planning via review of previous audit reports, financial and operational data, department procedures, ordinance, regulations, industry standards, etc.

Audits are based on sound planning and constructive involvement and communication between management and the inspector general. An audit typically consists of the following stages:<sup>2</sup>

#### **1. Planning**

- **Announcement Letter** – Management is notified of the intended audit. This letter communicates the preliminary objectives and scope of the audit.
- **Entrance Conference** – I meet with management and key personnel to discuss the audit scope, objectives and criteria. Discussions typically include audit requirements, estimated deliverables timeframes, contact personnel, information and documentation access, management concerns and anything that could impact the audit.

#### **2. Fieldwork**

- **Fieldwork** – Includes walkthroughs (communicating with staff, reviewing operations, processes and controls), selections of testing samples and the performance of sample testing to assess the adequacy of controls. Throughout this process, I will discuss with management any potential items of interest identified via sample testing.

Best practice-based recommendations will be developed from the identified findings.

#### **3. Reporting**

- **Exit Meeting** – I and those responsible for recommendation remediation meet to discuss the viability of the items identified, management’s responses and the audit report.
- **Draft Report** - Developed and distributed to management in anticipation of their formal responses to the noted recommendations. Responses include target dates for completion and should mitigate identified risks via planned implementation of enhancements.
- **Final Report** – Finalized, published, and distributed for senior management, City leadership and citizens.

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<sup>2</sup> *AuditNet, LLC. The internal audit process from a-to-z -how it works (n.d.)*

*City of Milwaukee – Inspector General  
Fundamentals and Standards*

**4. Post Reporting Follow-up**

- I monitor and follows-up on audit recommendations to ensure audit findings have been resolved per management's agreed-upon corrective actions plans.