



1015 Cultural Park Blvd.  
Cape Coral, FL

## **BUDGET REVIEW COMMITTEE**

<b>April 9, 2018</b>	<b>9:00 AM</b>	<b>Conference Room 220A</b>
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**1. Call to Order**

A. Vice Chair Wolfson

**2. Roll Call:**

A. Botkin, Doviak, Jacquet-Castor, McQuality, Osborn, Starnier, Wolfson, and Alternate Eidson

**3. Public Input**

**4. Business**

- A. Approval of meeting minutes - March 12, 2018 meeting
- B. Discussion on Annual Program Reviews and Function of Internal Auditing in the City - City Auditor's Office - Tim DiSano, Assistant City Auditor

**5. Public Input**

**6. Member Comment**

**7. Date and Time of Next Meeting:**

A. Monday, May 14, 2018, at 9:00 a.m. in Conference Room 220A

**8. Adjournment**

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If a person decides to appeal any decision made by the Board/Commission/Committee with respect to any matter considered at such meeting or hearing, he will need a record of the proceedings, and for such purpose, he may need to ensure that a verbatim record of the proceedings is made, which record includes the testimony and evidence upon which the appeal is based.

Item Number:	4.A.
Meeting Date:	4/9/2018
Item Type:	Business

**AGENDA REQUEST FORM**  
CITY OF CAPE CORAL



**TITLE:**

Approval of meeting minutes - March 12, 2018 meeting

**SUMMARY:**

**ADDITIONAL INFORMATION:**

**ATTACHMENTS:**

Description	Type
▢ March 12, 2018 regular meeting minutes	Backup Material

**MINUTES OF THE REGULAR MEETING OF  
THE CAPE CORAL BUDGET REVIEW COMMITTEE**

**Monday, March 12, 2018**

**CONFERENCE ROOM 220A**

**9:00 a.m.**

Chair Starner called the meeting to order at 9:00 a.m.

**ROLL CALL:** Botkin, Doviak, Jacquet-Castor, McQuality, Osborn, Starner, Wolfson, and Alternate Eidson were present.

**ALSO PRESENT:** John Gunter, Council Liaison  
Chris Phillips, Management Budget Administrator

**Public Input**

No speakers.

**BUSINESS**

Chair Starner requested that the Election of Chair and Vice Chair be moved to end of Business. ***Consensus agreed.***

**Approval of meeting minutes  
February 12, 2018 meeting minutes**

Chair Starner stated the minutes from the February 12, 2018 meeting were presented for approval.

***Committee Member Doviak moved, seconded by Vice Chair Wolfson, to approve the minutes for the February 12, 2018 meeting as presented. Voice Poll: All "ayes." Motion carried.***

**Discussion of Section 3 – Budget Overview**

Chair Starner stated at the last meeting one of the topics in this section was questioned by Member Botkin.

Member Botkin asked to spend time going over Financial Management Policies, Page 3-11, Item Number BM#4: "The financial burden on the City's taxpayers must be minimized through systematic annual program reviews and evaluation aimed at improving the efficiency and effectiveness of City programs. As such, the annual budget will be based on a City-wide work program of goals, implemented by departmental goals and objectives." He questioned if the BRC has ever been provided

the results of any of those reviews? If so, were those reviews done in house or by an independent firm?

Vice Chair Wolfson stated on the City's website there is information about comparison of our City with others such as financial points, staffing, etc. When an internal audit goes in, they look at these things. He stated if he had a specific question, he can contact the City Auditor's Office. He mentioned that audits are presented to the Audit Committee and noted that the agendas are posted online.

Management Budget Administrator Phillips stated #4 does not necessarily look at external benchmarking although it is perceived as such. In the Strategic Planning Section, there are goals and measurements where we report on several objectives. He noted in the Budget Division the goal was to provide so many hours of training to other departments and reported on how many hours were performed. This is done on a quarterly basis which is summarized in the budget book. Each department does a self-evaluation of goals and measurements due every quarter to the City Manager.

Vice Chair Wolfson asked if he knew the name of the program online. Administrator Phillips stated he would research that and get that information back to the BRC.

Chair Starner stated the major concern that Member Botkin may be having is with overstaffing or understaffing. Member Botkin stated he wanted to make sure the government is operating efficiently.

Discussion held regarding:

- City Auditor reports to Council
- External firm doing performance audits
- Scope drives up cost
- How many departments could be audited?
- Performance audit separate from financial

Vice Chair Wolfson stated the Internal Auditor's Office does not perform financial audits. They are mainly doing operational audits, such as management audits, and reporting. They have a whole system of ranking the risk involved with different departments.

Chair Starner stated the initial pushback might be the fact that this is the Budget Review Committee, and he questioned if someone might say we are going out of bounds.

Member Eidson stated the element that is missing is that if there is something in place that we could be looking at that we don't know how to do, we need to be educated on how to look at it. He requested that we find out that information today.

Member Jacquet-Castor agreed that we could recommend different things and highlight all advantages and disadvantages. If we already have it, maybe we should take a look at what we already have.

Vice Chair Wolfson stated we could invite the City Auditor to our meeting and explain the function of internal auditing in the City.

Member Botkin stated if the Committee agreed, he could get information from the Ohio State Auditor's Office on different types of scopes, performance audits, etc.

Member Eidson encouraged Member Botkin to motion this forward, if not at this meeting, at the next, based on the information that we could get so that we can get an idea of where we are. We need to know how to read what is there to make us more intelligent about looking at the budget. The secondary issue is if there is a gap, let us fill it with something different. Step One: get that information and know how to do it before leaving today. Step Two: he encouraged Mr. Botkin to bring forward a motion at the next meeting, if he so desired, based on the information we find out between now and then.

Council Liaison Gunter stated he will check with the Auditor's Office to see exactly what parameters they have and what information is available. He will try to get an answer on that first and have that forwarded to the BRC.

Chair Starner stated any information you have to please send it to the Recording Secretary to forward to the BRC. Council Liaison Gunter responded in the affirmative.

Discussion held regarding how to understand the Strategic Planning Section.

Member Doviak stated he has attended many of the strategic planning meetings which are extremely in depth. He explained the discussions about the budget at these meetings.

Vice Chair Wolfson stated the mission of the BRC is to make sure that the budget process is being carried out. We need to have faith that Finance is doing their job in preparing the budget. Most years the BRC is looking at the tax rate and making recommendations based on the City Manager's proposed budget. The BRC can also question department heads if they so desire.

Member McQuality requested that someone from the City Auditor's Office to come in and explain to the BRC their schedule of performance based audits and how they came up with this schedule. Is it on an annual basis, and who decides what goes into that schedule of audits?

Vice Chair Wolfson stated right now they are in the middle of setting up audit objectives for FY 2019.

Member McQuality questioned if the performance based audits for FY 2018 represent what the public is interested in. He noted we could start with what they do.

Chair Starner stated we need to find out if there is a website that shows these metrics being discussed. He stated there was a document where the City Manager talked about the budget, where he compares Cape Coral to other similar cities in Florida, and the Cape comes out looking good financially. He attended the Citizens Academy and was very impressed with the professionals that run this City. Is there someplace where we can look to see if there are metrics already there? Can we get someone from the Audit Department to come and talk about Mr. Botkin's question? Is a review done on the performance side? He stated to put these pieces together and bring it to our next meeting. He reminded the members to be careful of our scope here as the BRC.

Council Liaison Gunter stated he will invite the City Auditor to the next meeting. He stated he would find out from her if we have any of those performance-based reviews.

Chair Starner noted that the Financial Management Policies on page 3-11 were approved by Resolution 216-16.

Administrator Phillips left at 9:42 a.m.

### **Election of Chair and Vice Chair**

Chair Starner opened the floor for nominations for Chair. He stated terms for Chair and Vice Chair are for one year, and he would like to stay as Chair.

***Committee Member Botkin nominated George Starner as Chair, seconded by Vice Chair Wolfson.***

***Committee polled as follows: Botkin, Doviak, Jacquet-Castor, McQuality, Osborn, Starner, and Wolfson voted "aye." All "ayes." Motion carried.***

Chair Starner opened the floor for nominations for Vice Chair. Vice Chair Wolfson stated he would like to remain as Vice Chair.

***Committee Member McQuality nominated Harvey Wolfson as Vice Chair, seconded by Committee Member Doviak.***

***Committee polled as follows: Botkin, Doviak, Jacquet-Castor, McQuality, Osborn, Starner, and Wolfson voted "aye." All "ayes." Motion carried.***

### **Member Comments**

Member Doviak stated new members will bring fresh ideas during the budget season.

Member Jacquet-Castor expressed a desire to bring in the Internal Auditor to explain what they are doing with performance-based reviews to help the BRC understand the process in order to make a better recommendation.

Vice Chair Wolfson congratulated the Chair.

Council Liaison Gunter inquired, aside from the new members, how long the other members have been on the BRC. Chair Starner replied he was in the middle of his third year. Member Doviak stated it was his second. Vice Chair Wolfson stated he has been on since the beginning of the new BRC, about 6 years. Member McQuality stated he was in his second year.

Alternate Member Eidson followed up from the recommendation from the last meeting as far as where is the BRC on the chart.

Chair Starner stated the BRC was not on the chart on page 3-6 but was included on page 3-7 where the BRC was noted that they were reviewing the City's Manager's Proposed Budget in June and July. He noted that the BRC would be involved in the City Council workshops. He requested that the Recording Secretary send the BRC the previous slide show on the BRC recommendations that was presented last year to Council.

### **Date and Time of Next Meeting**

The next meeting will be held on Monday, April 9, 2018, at 9:00 a.m. in Conference Room 220A.

Chair Starner announced that he will be gone the entire month of April and will not be at the next meeting in April. Vice Chair Wolfson stated he will Chair the meeting in April.

### **Adjournment**

There being no further business, the meeting was adjourned at 9:51 a.m.

Submitted by,

Barbara Kerr  
Recording Secretary



<b>Item Number:</b>	<b>4.B.</b>
<b>Meeting Date:</b>	<b>4/9/2018</b>
<b>Item Type:</b>	<b>Business</b>

**AGENDA REQUEST FORM**  
CITY OF CAPE CORAL



**TITLE:**

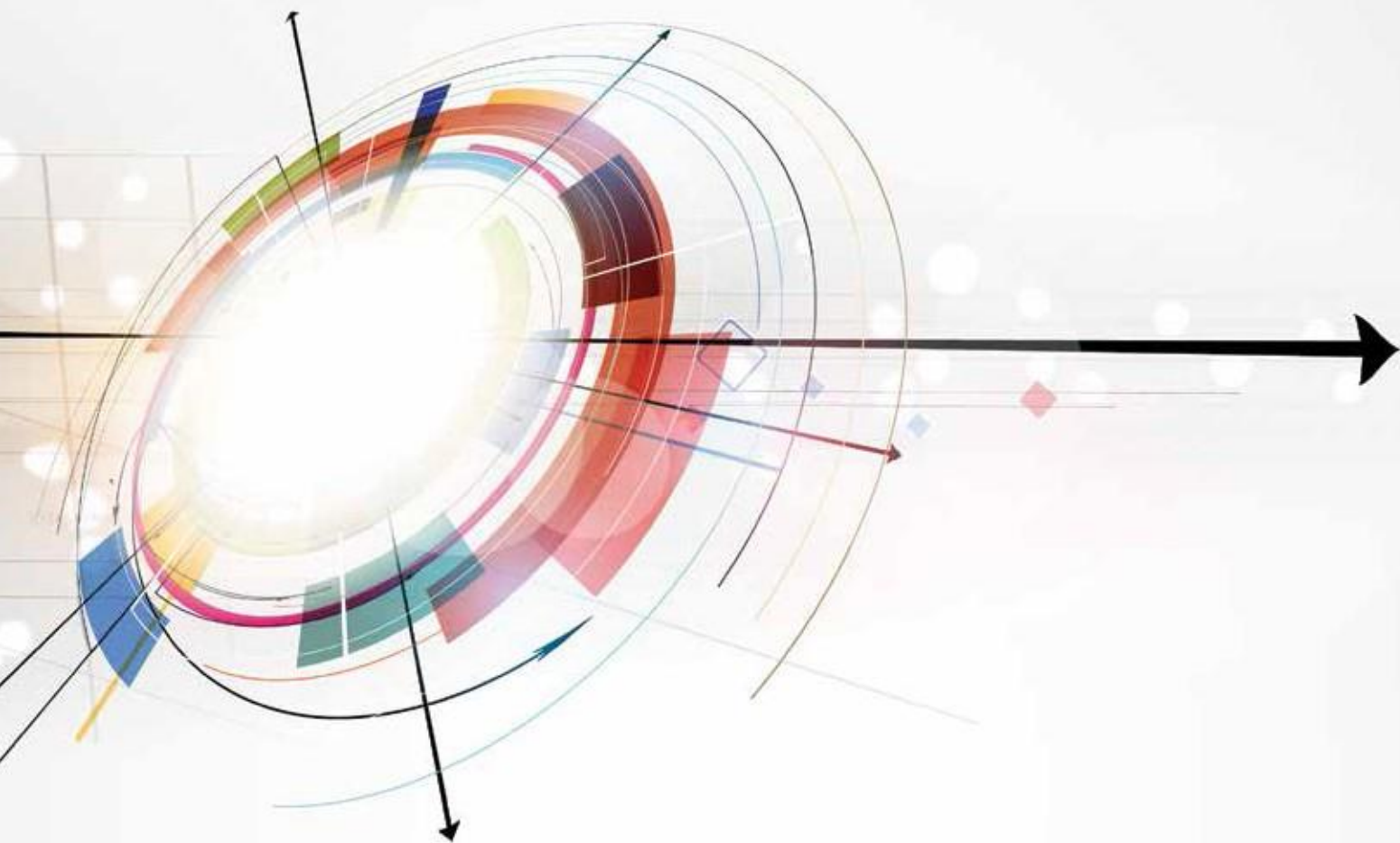
Discussion on Annual Program Reviews and Function of Internal Auditing in the City - City Auditor's Office - Tim DiSano, Assistant City Auditor

**SUMMARY:**

**ADDITIONAL INFORMATION:**

**ATTACHMENTS:**

<b>Description</b>	<b>Type</b>
▣ GPI - Distinctive Roles in Organizational Governance	Backup Material
▣ City Council - Audit Office Overview March 2018	Backup Material
▣ FY2018 Approved Strategic Plan and Audit Plan	Backup Material



Issue 8

# GLOBAL PERSPECTIVES AND INSIGHTS

Internal Audit and External Audit

Distinctive Roles in Organizational Governance

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# Internal Audit and External Audit

## Distinctive Roles in Organizational Governance

### Executive Summary

The interests, roles, responsibilities, and activities of internal auditors and external auditors are complementary and sometimes similar; in some cases, they overlap at one point or another. For example, the overlap between an internal auditor and an external auditor may include carrying out an efficient analysis of transactions; becoming intimately familiar with an organization's governance, risk management, and internal control systems; and sharing and developing accurate final reports.

This is not a surprise; each role is based on a professional discipline and operates to that discipline's standards. As such, the external auditor's professional concerns include the inaccuracies and misstatements that affect final

business accounts (financial information). Internal auditors are concerned with the wide range of governance, risk management, and internal controls (nonfinancial information). Keep in mind, internal audit and external audit do not compete and they do not conflict; rather, one complements the other. Both are crucial to good governance, and they should meet at some point and work together.

However, there are distinct differences in the roles, and certainly in the boundaries of the work that they perform. The differences, summarized below, are often under-recognized, and are perhaps even misunderstood and confused by stakeholders.

Key Differences Between Internal and External Audit		
	Internal Audit	External Audit
<b>Purpose</b>	Analyze and improve controls and performance	Express an opinion on the financial condition
<b>Scope</b>	Organizational operations	Fiscal financial records
<b>Skills</b>	Interdisciplinary	Accounting, finance, tax
<b>Timing</b>	Present/future, ongoing	Past, point in time
<b>Primary Audience</b>	Board, executive management	Investors, public interests
<b>Standards</b>	The IIA's <i>International Standards for the Professional Practice of Internal Auditing</i>	Generally Accepted Auditing Principles, Generally Accepted Auditing Standards
<b>Focus</b>	Enhance and protect organizational value	Fair representation of financial statements
<b>Employment Relationship</b>	An organization's employee	A contracted third party

## Functions

### Define and Distinguish

The internal auditor and the external auditor, jointly, are indispensable for good governance, with the internal auditor focusing on all nonfinancial information.”

—John Bendermacher, IIA–Netherlands

### Internal Audit

The IIA defines internal auditing as “an independent objective assurance and consulting activity designed to add value and improve an organization’s operations, it helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

- Internal audit professionals have backgrounds in various academic disciplines, and no single discipline is required.
- According to The IIA, an internal audit engagement is “a specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
- Internal auditors are employed by the organization, but are independent of the activities they audit. Because independence is imperative to be effective, the internal auditor ideally reports directly to the board.
- Internal auditors must conform with The IIA’s *International Standards for the Professional Practice of Internal Auditing*.

### External Audit

On the other hand, external auditors are professional accountants.

- According to the International Federation of Accountants (IFAC), an audit engagement is “a reasonable assurance engagement in which a professional accountant in public practice expresses

an opinion whether financial statements are prepared, in all material respects (or gives a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework, such as an engagement conducted in accordance with International Standards on Auditing. This includes a Statutory Audit, which is an audit required by legislation or other regulation.”

- Unlike internal auditors, external auditors are not employees of the organization — they are third parties, and therefore, have no vested interest in the organization.
- Globally, external auditors are guided by the International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing.

## Roles

### There Really Is a Difference

“A well-resourced and independent internal audit function is uniquely positioned inside organizations to provide objective assurance on the risks that matter most.”

—Carolyn Saint, IIA–North America

In some jurisdictions, an internal auditor is made *mandatory* by corporate governance codes or regulatory rules. This is a recognition of internal audit’s value to an organization. Internal audit saves organizations money, protects reputations, and paves the way to success. At its simplest, internal audit identifies the risks that could keep an organization from achieving its goals, alerts leaders to these risks, and proactively recommends improvements to help reduce the risks. Examples include:

## AUDIT FOCUS

### IIA Standard 1100: Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

- Detect wasteful spending.
- Identify red flags.
- Verify records and financial statements.
- Assess compliance with rules and regulations.
- Investigate fraud.
- Promote ethics.
- Inform senior management and the board.
- Identify risks and provide assurance over controls.

Internal audit *partners* with management and the board, and focuses on the complete health of the organization, which includes serving the overall needs of the organization, focusing on present and future events of the organization, and ensuring the accomplishment of goals and objectives. The external auditor's primary function — again as a third party — is to provide an opinion on whether the accounts show a true and fair view of the financial statements, and they are incidentally concerned with the prevention and detection of fraud. Beyond those basic functions, an external auditor provides no deeper benefit to the organization.

An organization should never consider using an external auditor to perform the internal audit function. This line of thinking is very dangerous.

External audit firms do not drill down into the organization's governance, risk management, and internal control operations; if for no other reason than, the purpose and the role does not require it. The external audit function is active only annually (at year-end), and is not able to provide immediate and preventative advice and insight into what will add value to an organization — external audit is completely independent of the organization.

*"In my experience, I have found that internal auditors communicate why things need to change, and then follow up with mentoring and training of staff across the entire organization."*

—Karem Toufic Obeid, IIA–United Arab Emirates

In contrast, internal audit has a constant presence in the organization. Unlike external auditing, internal auditing serves the needs of the organization through its

## AUDIT FOCUS

### **IIA Standard 2070: External Service Provider and Organizational Responsibility for Internal Auditing**

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

dedication to all controls *fundamental* to achieving the organizational objectives: governance, risk management, and internal control, and nowadays, more and more, also to covering culture and behavior. Its overall mission concerns providing organizations with assurance on and insight into their business practices, thereby enhancing organizational value.

To this end, internal audit advises management and the board on governance, risk management and control processes, and discusses — on more than an annual basis — the subject of sound internal control systems. To be effective, internal audit suggests improvements to management. As employees of the organization, internal audit has a vested interest in the organization's competencies in these areas.

*"Internal audit needs to provide the board with insight into the nature and roles of all assurance providers, including internal and external auditors, and second line of defense functions."*

—Hans Nieuwlands, IIA–Netherlands

While internal and external auditing techniques are similar, the intended outcomes vary greatly. For example, voicing concern if there is no understanding about the importance of procedures may be addressed differently by an internal auditor and an external auditor because of differing objectives. According to The IIA, internal audit's mission is "to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight." Internal audit's attention is on whether an organization's

business practices are assisting the business to meet *all* of its objectives, while recognizing and managing its risks — those that are obvious, and those that are not so obvious.

## Identifying and Managing Risks

### The Three Lines of Defense Model

“Audit committees need operational information, and although external audit’s role is outside of the Three Lines of Defense, it is in a position to ‘watch the perimeter.’ That contribution is vital and complementary.”

—Nur Hayati Baharuddin, IIA-Malaysia

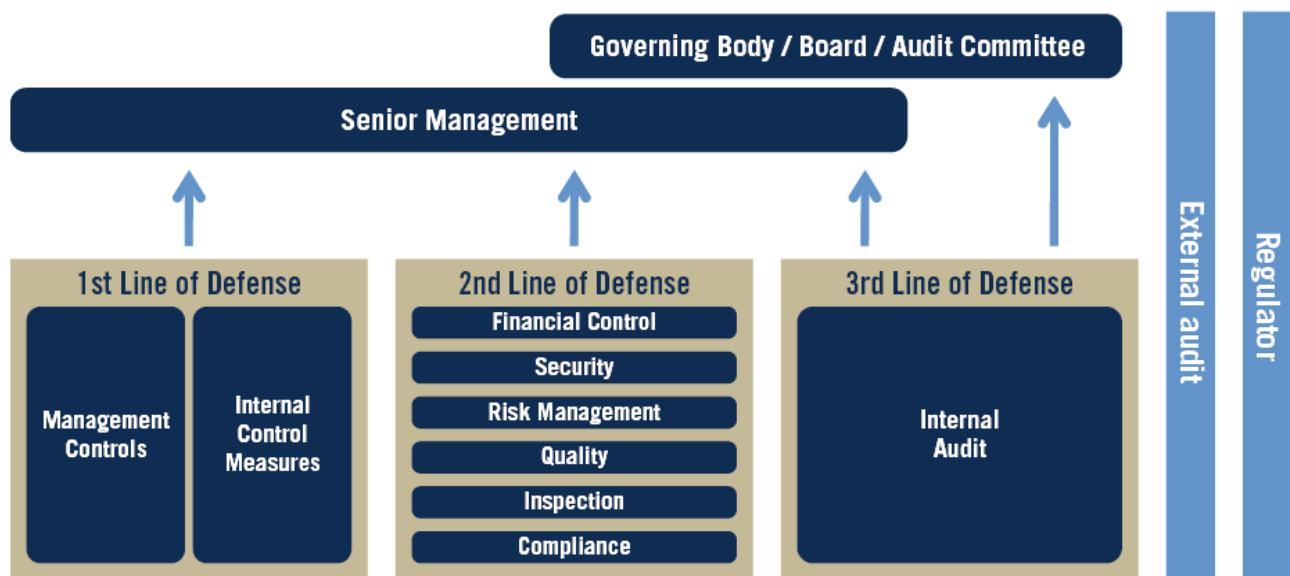
Anything important is worth protecting. Unrecognized risks will negatively affect an organization sooner or later. The IIA Position Paper “The Three Lines of Defense in Effective Risk Management and Control” discusses the fact that “duties related to risk management and control must be coordinated carefully to assure that risk and control processes operate as intended.” Further, the position paper provides direction to clarify important roles and duties to develop those risk management

initiatives. It states, “Establishing a professional internal audit activity should be a governance requirement for all organizations. This is not only important for larger and medium-sized organizations, but also may be equally important for smaller entities, as they may face equally complex environments with a less formal, robust organizational structure to ensure the effectiveness of its governance and risk management processes.”

The Three Lines of Defense model, illustrated below, states, “Without a cohesive, coordinated approach, limited risk and control resources may not be deployed effectively, and significant risks may not be identified or managed appropriately. Clear responsibilities must be defined so that each group of risk and control professionals understands the boundaries of their responsibilities and how their positions fit into the organization’s overall risk and control structure.”

*Operational management*, the first line of defense in risk management, is responsible for maintaining effective internal controls on a day-to-day basis. The controls are designed and executed under management’s guidance, and performed by their employees (e.g., accounting). *Risk management, compliance, and other functions* — again established by management — comprise the

### The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

second line of defense, which supports management policies and assists risk owners to define target risk exposure within multiple compliance functions (e.g., safety, supply chain, etc.).

The second line of defense is responsible for disseminating risk-related information throughout the organization. Internal audit is solely the third line of defense, and actively and continuously contributes to effective organizational governance, risk management, and internal controls (e.g., operations, assets, regulations, contracts, etc.). Internal audit provides independent assurance, and assesses the effectiveness of the processes created in the first and second lines of defense. External audit's role is outside of the model, but it is important to have for assurance over financial reporting processes.

### Working Together

"Internal audit partners with management and the board, and focuses on the complete health of the organization."

—Ana Cristina Zambrano, IIA-Colombia

The January 2017 *Internal Auditor* magazine article "Mapping Assurance" stated it plainly, "When it comes to providing assurance, internal audit isn't the only player in the game. Boards and executives seek assurance information on the effectiveness of an organization's governance from a variety of internal and external sources, including external auditors."

Identifying risk is one of the most important tasks to perform while conducting an audit. The U.S. Office of the Comptroller of the Currency's (OCC) *Comptroller's Handbook* suggests that while external auditing's role is outside of the Three Lines of Defense model, risks (e.g., operation, compliance, strategic, and reputation) can be identified by both internal auditors and external auditors. The difference is that external auditors take no action to help eliminate the risk.

Recognizing the difference in roles and duties, internal and external auditors, in many instances, already work together. They work together to not only cover the full area of financial and nonfinancial information, but also to avoid unnecessary overlap in execution of audit

## AUDIT FOCUS

### IIA Standard 2050: Coordination and Reliance

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

procedures by sharing risk assessments, reports, and other information — formally and informally. Internal and external audit working together increases the effectiveness of the total audit efforts made, and is beneficial to the board and the audit committee.

As stated earlier in this report, the internal auditor's interests and responsibilities and the external auditor's interests and responsibilities complement one another, which is a good practice. The Implementation Guide for Standard 2050 states, "The CAE meets with each of the providers to gather sufficient information so that the organization's assurance and consulting activities may be coordinated."

"Allies in Governance 2.0," published by IIA–Netherlands (2016) states, "The roles of the external auditor and the internal auditor go hand-in-hand. Clear positioning, optimum collaboration, and knowledge sharing are key in this respect."

## Closing Thoughts

### Internal Audit: Constant and on Behalf of the Organization

"Internal audit reports on the overall health and well-being of the organization, and is indispensable to effective governance, risk management, and control."

—Lesedi Lesetedi, African Federation IIA

In closing, effective organizational governance requires a robust, independent internal audit function — a very necessary part of healthy, successful business practices.



Internal audit's efforts are purposely centered on governance, risk management, and internal control. As employees of the organization, albeit in an independent role, internal auditors are fully vested in the organization's successes, and their concern is to cover *all* organizational operations on a continuous basis. At the conclusion of an audit engagement, internal auditors are careful to deliver thorough "made-to-order" reports to the board and/or audit committee that include specific and detailed conclusions about how risks and objectives are currently known and being managed.

In addition, internal audit's reports include well-thought-out suggestions for continuous improvement, and help the entire organization accomplish goals and objectives to improve internal control and eliminate identified risks. The bottom line? Internal audit is *the key*. To ensure that an organization creates short-, medium-, and long-term value, internal auditing is the undeniable answer, and the internal audit function is best performed by *qualified individuals* working within a well-resourced and independent internal audit function.

## For More Information

- International Federation of Accountants (IFAC), "Handbook of the Code of Ethics for Professional Accountants," 2010 ([www.ifac.org](http://www.ifac.org)).
- The IIA "Implementation Guide 1100: Independence and Objectivity," available to members only, January 2017 ([www.theiia.org](http://www.theiia.org)).
- The IIA "Implementation Guide 2070: External Service Provider and Organizational Responsibility for Internal Auditing," available to members only, January 2017.
- The IIA Position Paper "The Three Lines of Defense in Effective Risk Management and Control," 2013 ([www.theiia.org](http://www.theiia.org)).
- The IIA *Internal Auditor* magazine "Mapping Assurance: Internal auditors can facilitate efforts to document the organization's combined assurance activities," Y.S. Al Chen, Loïc Decaux, and Scott Showalter, Dec. 2016 ([www.theiia.org](http://www.theiia.org)).
- The IIA "Implementation Guide 2050: Coordination and Reliance," available to members only, January 2017 ([www.theiia.org](http://www.theiia.org)).
- IIA–Netherlands, "Allies in Governance 2.0: Towards a sustainable relationship between the Audit Committee and the Internal Audit Function," September 2016 ([www.iaa.nl](http://www.iaa.nl)).

## About The IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla., USA. For more information, visit [www.globaliia.org](http://www.globaliia.org).

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# City of Cape Coral Audit Office Overview for City Council

City Auditor's Office  
January 2018





# City Auditor's Office

Andrea R. Butola, CPA, CFE, CGMA

City Auditor

(239) 242-3380

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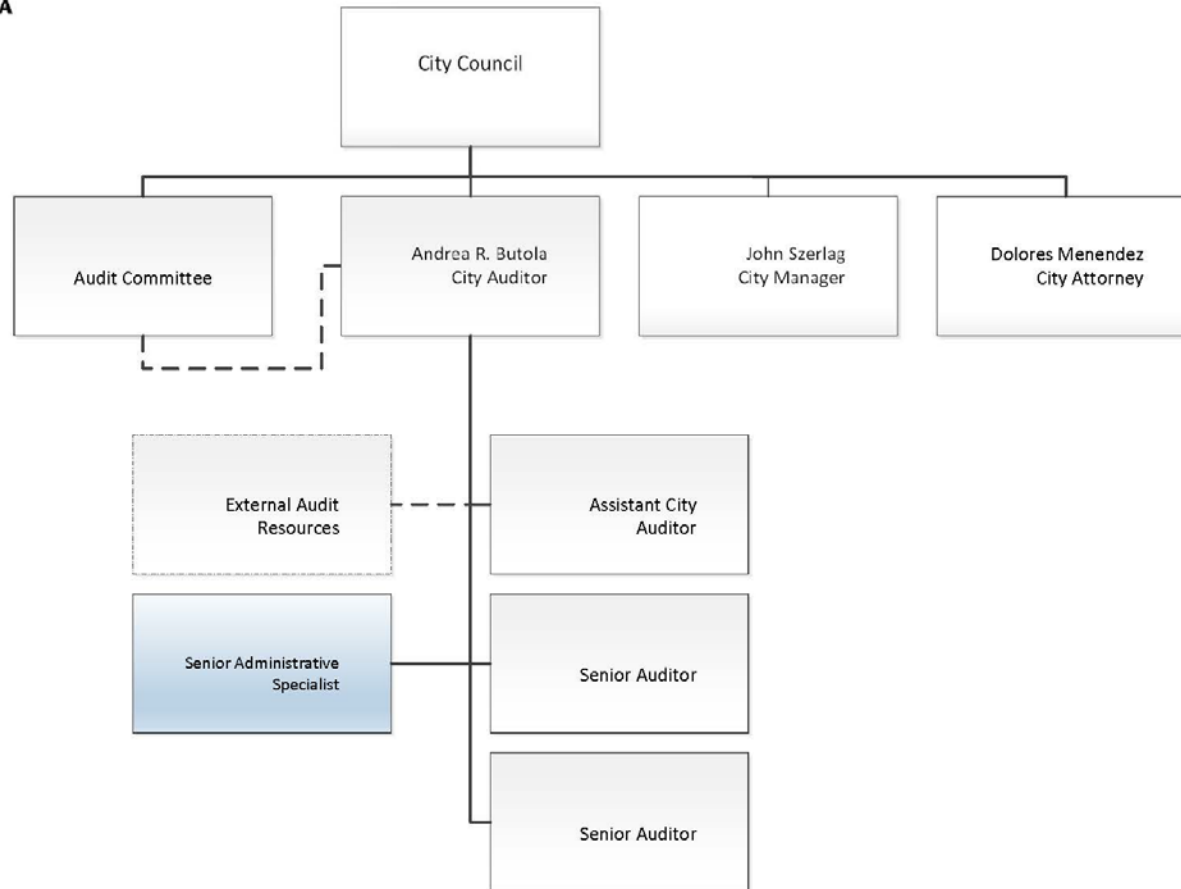
# City Auditor's Office

## Outline

1. Organization Structure
2. City Charter – City Auditor's Office
3. Peer Review Process
4. What is Internal Auditing
5. How is the Annual Audit Plan developed?
6. How are audits done?



## City Auditor's Office Organizational Structure



City of Cape Coral  
City Auditor's Office  
December 2017



# City Auditor's Office

## City Charter – City Auditor's Office

- Ordinance 125-02, effective 12-9-2002, placed a Charter Amendment on Referendum for the City Auditor to report directly to City Council.
- Approved by referendum vote on April 8, 2003



# ALGA Peer Review

- ALGA (Association of Local Government Auditors) peer review is completed to determine whether the City Auditor's Office (CAO) quality control system is suitably designed and is in place and operating effectively.
- Also provides assurance that the CAO is following established policies and procedures and applicable auditing standards (Yellow Book).
- Reviews are conducted every three years and the office has had three completed with a pass.



# Peer Review



The Association of Local Government Auditors  
Awards this

## *Certificate of Compliance*

to

*City of Cape Coral  
City Auditor's Office*

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audit and attestation engagements during the period October 1, 2013, through September 30, 2016.

Erin J. Kenney  
ALGA Peer Review Committee Chair

David Givans  
ALGA President





# Definition of Internal Auditing

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.

It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

--The IIA/ IPPF



# Key elements of the definition

- **Independent, objective** – Auditor's have to be both in appearance and fact.
- **Assurance** – is defined as a positive declaration intended to give confidence.
  - In light of governance: Assurance is defined as, part of governance in which management provides accurate and current information to the stakeholders about the efficiency and effectiveness of its policies and operations, and the status of its compliance with the statutory obligations.
- **Consulting** – is defined as the business of giving expert advice to other professionals, typically in financial and business matters.
- **Add value and improve** – NOT just critical. Auditor's look for the why. The root cause. Auditor's don't just point out what is wrong, **auditor's help to find solutions.**
- **HELPS** – very important. Auditor's are here to help.
- **Accomplish objectives** – What we do as auditor's, helps the City achieve their goals and if they can do that more efficiently and effectively with a **systematic, disciplined approach,** then in the long run it saves the taxpayers money and that's a good thing! Auditing in general is governed by certain standards and the City Auditor's Office uses the Yellow Book. These standards specifically lay out how and what we do.



# Key Elements continued

- **Evaluate and improve** – Auditor's must use specific methodologies to evaluate processes, risks and controls.
  - When auditor's are performing their evaluation they are looking for ways to improve effectiveness of controls and processes.
- **Effectiveness** – is defined as “the degree to which objectives are achieved and the extent to which targeted problems are solved.”
  - This is different than efficiency in that there is no reference to cost
  - Effectiveness is “doing the right thing” versus Efficiency is “doing the thing right”
- **Governance Process**
  - Good governance is about the processes in place for making and implementing decisions. It's not about making “correct” decisions, but about the best possible process for making those decisions.
  - Good governance has a positive effect on many aspects of local government.
  - Good governance is: accountable, transparent, follow the rules of law, responsive, equitable and inclusive, effective and efficient, and participatory
  - Important because it can instill confidence in taxpayers and leads to better decisions. It also helps governments meet legislative responsibilities and provides an ethical basis for governance.



# Risk, Control, Risk Assessment & Risk Management

- **Risk** – is defined as “exposure to danger, harm or loss.”
  - An example of a risk is the risk of inventory loss due to stealing
- **Control** – is a way to mitigate or lessen risk.
  - The control in the instance of loss of inventory in a department store is those tags that set off all the alarms when you leave if its not removed.
- **Risk Assessment** – through the risk assessment process we identify certain risks or risky areas in the City’s processes and departments. The City Auditor’s Office performs audits to review the controls are in place and to make sure they are operating effectively to help mitigate the risk
- **Risk Management** – is defined as “the identification, analysis, assessment, control and avoidance, minimization or elimination of unacceptable risks.



# Quotes

“We derive and express observations, conclusions, and recommendations without prejudice, partisanship, personal interests, and the undue influence of others.”

~Practice Advisory 2420-1 Quality of communications~ from the IPPF

“The existence of the audit shop is a major acknowledgement by this government that self-correction is important. Finding and correcting problems is an affirmation of good government.”

~Gary Blackmer Oregon Audits Director

“Internal audit...the coolest profession in the world.”

~Tom Peters (2013 IIA conference)

# Internal Auditor



What my mom  
thinks I do.



What my friends  
think I do.



What my  
colleagues think I  
do.



What Management  
thinks I do.



What I think I  
do.



What I really  
do.



# Annual Audit Plan and Strategic Plan

- Is developed through a **risk assessment process** involving a broad cross section of the City governance bodies.
- Includes input from:
  - Council Members
  - Audit Committee
  - City Management
  - Auditors
- Evaluated and weighted based on defined factors.
- Approved by Council each year.



# Risk Factors

- Interface with public
- Nature of activity to achieving department goals
- Effect of failure to achieve goals  
= Negative media coverage OR public displeasure
- Potential loss





# What do we do?

- There are several types of audits/ work performed by the CAO
  - Financial audit
  - Performance audit
  - Compliance audit
  - Follow up procedures
  - Special projects
- Our office has the staffing and capability to perform any of these types of audits, but....
- The CAO performs mostly Performance Audits, Follow up procedures and Special Projects
- The City's Financial and Compliance audits are currently completed by External Auditors



# What do we do?

- Performance auditing is defined by the Yellow Book as:
  - “...audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with the responsibility to oversee or initiate corrective action, and contribute to public accountability.”
    - *GAO Government Auditing Standards 2.10*



# Audit Process

1. Assign an audit from the Audit Plan
2. Preliminary planning
3. Risk Assessment
4. Scope and Objectives
5. Audit Program
6. Entrance Conference

## Background/Planning Steps

1. General Familiarization
2. Interviews
3. Legal Compliance
4. Internal Controls
5. Analysis and Tests
6. Review Prior audits
7. Research
8. Other – Survey Steps



# Audit Process

7. Fieldwork & review



## Evidence

- Sufficient
- Relevant
- Reliable

8. Draft report



9. Management Response

- Quality Review
- Compliance
- Checklist

10. Exit Conference

11. Final report/Implementation

12. Follow Up



## CITY AUDITOR'S OFFICE Strategic and Audit Plan – Fiscal Year 2018

### **Vision:**

It is our vision to work in partnership with the City Council, City Management and the Community without compromising independence, objectivity or integrity with the purpose of achieving an audit product that adds value and that supports the strategic initiatives of the City.

### **Mission:**

Our mission is to use the resources of the City Auditor's Office to provide assurance and consulting services in a systematic and disciplined manner and to ensure that our services are designed to promote the effectiveness and efficiency of City operations, internal controls and governance processes.

### **Values:**

The City Auditor's Office will conduct its work with an attitude that is objective, fact-based, nonpartisan, and non-ideological. We will always maintain and protect our independence and objectivity both in fact and in appearance. This includes independence of mind when providing audits, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest.

<b>City Auditor's Office FY 2018 - Goals and Objectives:</b>	
<b>Goals / Objectives</b>	<b>Action plan</b>
1. Utilize the City's Strategic Plan along with our City-Wide Risk Assessment to allocate audit office resources.	<ul style="list-style-type: none"><li>• Ensure staff awareness of City strategic key initiatives, Department goals and objectives and Department Performance measurements.</li><li>• Utilize these to guide the focus of each individual audit risk assessment.</li></ul>
2. Champion the awareness and use of good governance and internal control frameworks within the City.	<ul style="list-style-type: none"><li>• Incorporate the Green Book Standards into audit findings.</li></ul>
3. Maintain a quality control process to provide assurance that all departmental output is in compliance with Generally Accepted Government Auditing Standards (GAGAS).	<ul style="list-style-type: none"><li>• Periodically review policies and procedures with staff.</li><li>• Ensure that the Policies and Procedures Manual is reviewed and updated as necessary to be in compliance with GAGAS.</li></ul>
4. Require staff to complete a minimum of 40 hours of continuing education annually as required by the GAGAS standards.	<ul style="list-style-type: none"><li>• Track all training activities to ensure compliance.</li><li>• Allocate adequate resources to support the training activities.</li></ul>
5. Transition the department to new leadership under a new City Auditor.	<ul style="list-style-type: none"><li>• Provide comprehensive on-boarding process</li><li>• New City Auditor meet with City Management, Department Directors and Mayor and Council Members to discuss plan updates and risks</li></ul>
6. Enhance office productivity by implementing the use of electronic working papers.	<ul style="list-style-type: none"><li>• Auditors will complete Lean Six Sigma training in order to lean office procedures to ensure efficient implementation of processes into electronic workpapers</li></ul>



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CITY AUDITOR'S OFFICE  
Strategic and Audit Plan – Fiscal Year 2018

Available Audit Hours:	Percentage of time available for audit work	Available Audit Hours
City Auditor	75%	1,255
1 Assistant City Auditor	80%	1,370
2 Senior Auditors	80%	$1370 + 1370 = 2,720$
Administrative Support Staff	20%	335
Total hours		5,700

The remaining hours are devoted to administrative responsibilities such as staff management, Audit Plan development, budget development and management, training and professional development, Audit Committee meetings and review of Audit Hotline



CITY AUDITOR'S OFFICE  
Strategic and Audit Plan – Fiscal Year 2018

**Annual Audit Plan - FY 2018**

Area / Focus of Audit	Projected Hours	Audit Resource
Audit Office – Self Assessment for FY 2017	80	Internal
Citywide Risk Assessment FY 19, 20 & 21	350	Internal
Financial Services – Fixed Assets Process	450	Internal
Human Resources – Employee Benefits	800	Internal
IT Audit – Department Risk Assessment	160	External
Public Works – Storm Water Operations	800	Internal
Utilities – Collection Distribution Division	800	Internal
Administrative Review and Reporting	250	Internal
Special projects as may be requested	300	Internal
<b>Financial Audits (City, Charter School, and Pension) – FY 2017</b>		
City - External Financial CAFR Audit	10	External
Charter School – External Financial CAFR Audit	10	External
Charter School – External Internal Funds Audit	10	External
General Pension Trust Audit	10	External
Police Pension Trust Audit	10	External
Fire Pension Trust Audit	10	External
<b>Follow Up – Carry over from prior years</b>		
Follow up – Timekeeping	300	Internal
Follow up – Pension Plan Census Data	300	Internal
<b>Follow Up – new process</b>		
Follow up – TBD	525	Internal
<b>Carry over from FY 2017</b>		
City Clerk's Office - Records Division	525	Internal
Total hours	5,700	



CITY AUDITOR'S OFFICE  
Strategic and Audit Plan – Fiscal Year 2018

**Annual Audit Plan FY 2019**

Area / Focus of Audit	Projected Hours
Audit Office – Self Assessment for FY 2018	80
Community Development - Code Compliance Division	900*
Financial Services - Debt Service	500
Financial Services – Annual OPEB Costs	500
IT – Audit Parks PCI	200
Public Works – Lot Mowing	900*
City Manager- Economic Development-Contract Agreements w/ Businesses	900*
Administrative Review and Reporting	250
Special projects as may be requested	300
* Increase in audit estimated hours for full scope audits to account for transition to electronic workpapers	
<b>Financial Audits (City, Charter School, and Pension) – FY 2018</b>	
City - External Financial CAFR Audit	40
Charter School – External Financial CAFR Audit	20
Charter School – External Internal Funds Audit	10
General Pension Trust Audit	30
Police Pension Trust Audit	30
Fire Pension Trust Audit	30
<b>Follow Up – new process</b>	
Follow up – TBD	500
<b>Carry over from FY 2018</b>	
Other carry over from prior year	510
Total hours	5,700





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CITY AUDITOR'S OFFICE  
Strategic and Audit Plan – Fiscal Year 2018

**Annual Audit Plan FY 2020**

Area / Focus of Audit	Projected Hours
Audit Office – Self Assessment for FY 2019	80
Fire – Operations Division	900
Financial Services – Property Liability Insurance Fund	900
Financial Services – Workers' Compensation Insurance Fund	900
Parks and Recreation – Parks Maintenance	900
Peer Review	80
Other Audits – TBD (See Note)	1780
<b>Financial Audits (City, Charter School, and Pension) – FY 2019</b>	
City - External Financial CAFR Audit	40
Charter School – External Financial CAFR Audit	20
Charter School – External Internal Funds Audit	10
General Pension Trust Audit	30
Police Pension Trust Audit	30
Fire Pension Trust Audit	30
Total hours	5,700

Note: A three-year risk assessment for FY2019, 2020 and 2021 will be completed in FY 2018; therefore, audits included in the plan for FY2019 and 2020 are subject to change based on the new risk assessment.