GUIDELINES
AND
MODEL AUTHORIZING LEGISLATION
REGARDING AUDIT OF LOCAL
GOVERNMENTS

BY

LOCAL GOVERNMENT AUDIT REPRESENTATIVES

TO

THE NATIONAL INTERGOVERNMENTAL AUDIT FORUM

May 1987
MEMORANDUM

TO: Elected Officials and Administrators of Local Government Entities
FROM: Local Government Auditor Representatives to the National Intergovernmental Auditors Forum
DATE: May 14, 1987
SUBJECT: Model Legislation to Implement an Audit Function in Your Entity

As elected officials and administrators in local governments are faced with increased pressure on their resources as well as increased pressure for accountability for the use of those resources, it is becoming more evident that a strong audit function is essential as a part of the financial and operating management system.

Because many local governments have yet to implement a strong audit function, a group of local government auditors affiliated with the National Intergovernmental Audit Forum (NIAF) have developed model legislation designed to assist local governments which might be interested in implementing the function. The model legislation provides suggested charter and resolution language to use as guidelines during the time an entity is attempting to develop audit authorizing legislation. The attached package includes reasons for installing the audit function and model charter language for both an elected and an appointed auditor as well as model authorizing ordinances/resolutions for an elected or an appointed auditor.

The group providing this information is representative of a wide range of auditors employed in local government. Some are elected; others are appointed and report to either their legislative body or to their executive branch. The guidelines are comprised of the best ideas from all forms of audit organizations in local government and have received scrutiny and comment from
both professional associations and the regional intergovernmental audit forums. They are written to include all the features the profession requires, however some jurisdictions may find it necessary to slightly modify the language to accommodate the special needs of the governmental entity.

It is our hope you find these guidelines informative and useful.

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Attachment
GUIDELINES
AND
MODEL AUTHORIZING LEGISLATION
REGARDING AUDIT OF LOCAL GOVERNMENTS

By
Local Government Audit Representatives

To
The National Intergovernmental Audit Forum

Background and Rationale

Local Government Audit Representatives to the National Intergovernmental Audit Forum believe that auditing of governmental programs, functions, activities, and organizations is a vital element of responsive, efficient and effective democratic government. Appointed and elected managers have primary responsibility for efficient and effective operations, for maintenance of reliable records, for sufficient and fairly presented reports on operations, for safeguarding assets, and for deterring fraud, waste, and abuse in government programs. Auditing can assist these activities by providing an independent and objective evaluation of operations. By independently monitoring and reporting on the economy, efficiency, and effectiveness of government activities as well as on financial statements presenting the results of government's financial operations, auditors apprise the public of the stewardship exercised by management. Auditors can also make a variety of other contributions such as improving organizational structure, assuring the adequacy of accounting and management controls and systems, encouraging constructive change, and identifying means of increasing productivity. Auditing is especially important in government because:

1. Profit cannot be used as a key indicator of performance in government which means that other measures of efficiency, economy, and effectiveness are needed.

2. It is vital to fair and effective democratic government that the government exercise its power and perform its duties in compliance with law, policy, and established procedure, with good judgment and sound management.

For these reasons, we believe that all governmental units should be subject to periodic audit by an independent auditor as defined in generally accepted government auditing standards. Auditors reporting exclusively to management can usefully supplement, but cannot take the place of, the independent governmental auditor. The independent audit function may be performed by a federal, state or local auditor or a public accounting firm which is independent of the governmental entity to be audited.

It is important that the audit function be established so that it will make the greatest possible contribution to the cause of efficient, effective and responsive government conducted in accordance with best business practices, legislative and management directives, and sound stewardship of public funds.

We, therefore, endorse the following guidelines for establishing the audit function in local governmental entities.

Guidelines for Establishing the Audit Function in Local Government

The state statute relative to local audit, entity charter provisions and ordinances or resolutions regarding the audit function should:

1. Provide for an independent auditor either through election or appointment by the legislative body or chief executive officer. Appointment or removal of an appointed auditor by a chief executive officer should be subject to legislative approval. When the appointment is made for a specified period, ideally it should be for an extended term, longer than the terms of elected legislative officials.

2. Authorize the auditor to make expanded scope audits in accordance with generally accepted government auditing standards.

   The three elements of expanded scope auditing are:

   a. Financial and compliance - determines (a) whether the financial statements of an audited entity present fairly the financial operations in accordance with generally accepted accounting principles and (b) whether the entity has complied with laws and regulations that may have a material effect upon the financial statements.

   b. Economy and efficiency - determines (a) whether the entity is managing and utilizing its resources (such as personnel, property, space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency.

   c. Program results - determines (a) whether the desired results or benefits established by the legislative body or other authorizing body are being achieved and (b) whether the agency has considered alternatives that might yield desired results at a lower cost.

   All audit activities should result in a written report containing relevant background information, findings and recommendations.

3. Assure that the auditor has full, free and unrestricted access to local government employees, officials, records and reports.

4. Assign the auditor responsibility to coordinate and monitor all auditing within the local government entity which is performed by public accountants or audit organizations of the entity and its subdivisions.

5. For appointed auditors, establish an audit committee at the local level to be responsible for review of the auditor's oversight of the financial reporting, financial management, economy, efficiency, and program results of
governmental operations and activities. The committee should also work to assure maximum coordination between the work of the auditor and the audit needs of the chief executive officer and/or the legislative body. It is desirable that the majority of the committee consist of non-elected citizens.

6. Negate the influence of partisan politics on the selection and operations of the appointed auditor or on the operations of the elected auditor.

7. Include the concept of intergovernmental audit cooperation and coordination, which will reduce overall auditing costs and will lead to the recognition and acceptance of the audit results by all governmental levels subject to necessary tests and evaluations of audit scope and independence.

8. Require that responsible government officers respond promptly in writing, within a time specified, to audit recommendations explaining what actions are planned or have been taken to deal with problems identified in audit reports.

9. Assure that non-audit functions are not assigned to an appointed auditor. If the auditor position is an elected position, care should be taken to structure the position so that the elected person is not assigned responsibilities which may appear to be a conflict of interest.

The concepts identified in this set of guidelines are arranged in two suggested model legislation formats and are presented in Appendix 1 for appointed local government auditors and in Appendix 2 for elected local government auditors.
Appendix 1

MODEL CHARTER LANGUAGE ESTABLISHING
AN INDEPENDENT AUDIT FUNCTION
IN LOCAL GOVERNMENTAL ENTITIES

SECTION ____. [NAME OF ENTITY] Auditor

The [NAME OF ENTITY] auditor shall be appointed by (a majority of the legislative body) or (by the chief executive of [NAME OF ENTITY] and ratified by a majority of the legislative body). The auditor shall conduct, or cause to be conducted, financial, compliance and expanded scope audits following generally accepted government auditing standards as promulgated by the United States Comptroller General. Appointment of the auditor shall be for a period of ___ years and removal from office must be for cause and a vote of at least two-thirds of the legislative body. All audit reports are public documents and will be made available for public examination.
WHEREAS no overall indicator of performance measurement such as profit in the private sector exists in [NAME OF ENTITY], and

WHEREAS expanded scope auditing independently reviews, evaluates and reports on the financial condition, the accuracy of financial record keeping, compliance with applicable laws, policies, guidelines and procedures, and efficiency and effectiveness of operations, and

WHEREAS management and employees in the public sector are responsible for taxpayer remitted resources and should be held accountable for their use, and

WHEREAS it is vital that government exercise its power and perform its duties in compliance with law, policy, and established procedures and apply good judgment and sound management practices, and

WHEREAS the independence and public accountability of the auditor can be assured by provision of an independent, legislatively appointed or ratified auditor,

NOW THEREFORE BE IT ORDAINED/RESOLVED THAT:

1. The Office of [NAME OF ENTITY] Auditor is hereby established.

BE IT FURTHER ORDAINED/RESOLVED THAT:

2. The auditor shall be named through appointment by a majority vote of the legislative body/board (or appointed by the chief executive officer and ratified by a majority vote of the legislative body/board).

3. The auditor shall be a person able to manage a professional audit staff, analyze financial records, evaluate operations for economy, efficiency and program results.

4. The auditor shall not be actively involved in partisan political activities or the political affairs of [NAME OF ENTITY].

5. If the auditor is not a Certified Public Accountant (CPA), he or she shall appoint at least one deputy who is certified as a CPA.

6. The auditor shall serve a minimum term of ___ years, unless removed for cause by a vote of at least two thirds of the legislative body/board. The term of an auditor appointed by the chief executive officer shall be ___ years, unless removed for cause by the chief executive officer and removal is ratified by at least two thirds vote of the legislative body/board. The auditor may be reappointed at the end of the term of office.
7. An audit committee is hereby established to consult with the auditor regarding technical issues and to work to assure maximum coordination between the work of the auditor and the needs of the chief executive officer and the legislative body/board. Representatives from the following non-governmental industries will be audit committee members: One member of the legislative body, appointed by that body, shall also serve on the audit committee.

8. The auditor and the auditor's office will adhere to generally accepted government auditing standards (GAGAS) in conducting its work and will be considered independent as defined by those standards.

9. The auditor and the auditor's office is charged with the following responsibilities:

SECTION 1. Assistants and Employees

The auditor shall have such assistants and employees as are necessary to perform duties required by the legislative body/board or chief executive officer.

SECTION 2. Scope of Audits

a. The auditor shall have responsibility to conduct expanded scope audits of all departments, office boards, activities and agencies of the entity to independently determine whether:

(1) activities and programs being implemented have been authorized by the legislative body/board, state law or applicable federal law or regulations;

(2) activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the legislative body/board, state law or applicable federal law or regulations;

(3) activities or programs efficiently and effectively serve the purpose intended by the legislative body/board, state law or applicable federal law or regulations;

(4) activities and programs are being conducted and funds expended in compliance with applicable laws;

(5) revenues are being properly collected, deposited and accounted for;

(6) resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;

(7) financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;
(8) during the course of audit work, there are indications of fraud, abuse or illegal acts; and

(9) there are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management.

b. Audits shall be conducted in accordance with generally accepted government auditing standards applicable to financial and performance audits. (See footnote No. 1.)

c. The auditor shall not conduct nor supervise an audit of an activity for which he/she was responsible or within which he/she was employed during the preceding two years.

SECTION 3. Annual Audit Plan

a. At the beginning of each calendar (fiscal) year, the auditor shall submit an annual audit plan to the legislative body/board for review and comment. 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 legislative body/board or a committee thereof. Additionally, the auditor may spontaneously 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 should consult with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be properly coordinated.

SECTION 4. Special Audits

a. The chief executive officer may request the independent local government auditor to perform special audits that are not included in the annual audit plan. After consultation with the legislative body/board, a special audit requested by the chief executive officer may become an amendment to the annual audit plan.

b. The auditor shall submit the report of the special audit to the chief executive officer and shall provide copies of the report to the legislative body/board.

SECTION 5. Funding

Sufficient funds shall be provided to carry out the responsibilities specified herein. The auditor's salary shall be set by the audit committee and reviewed annually.

SECTION 6. Records

The auditor shall retain for at least three years a complete file of each audit report and each report of other examinations, investigations, surveys and reviews made under legislative authority. The file should include audit workpapers and other supportive material directly pertaining to the audit report.
SECTION 7. Access to Records and Property

All officers and employees of [NAME OF ENTITY] shall furnish 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 legislative authority approval, may, without fee, cause 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 exhibits to the auditor.

SECTION 8. Agency Response

A final draft of the audit report will be forwarded to the audited agency and the chief executive officer for review and comment regarding factual content before it is released. The agency must respond in writing specifying agreement with audit findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The response must be forwarded to the auditor within [SPECIFY TIME FRAME]. The auditor will include the full text of the agency's response in the report.

SECTION 9. Audit Reports to the Legislative Body/Board

a. Each audit will result in a written report.

b. The auditor shall submit each audit report to the legislative body/board and shall retain a copy in his/her office as a permanent record. A copy shall be filed with the municipal clerk and/or the municipal library.

c. If appropriate, the audit report shall contain the professional opinion of the auditor or the contract auditor concerning the financial statements issued by the department, board or agency; or if the audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.

d. The auditor shall include in the audit reports:

(1) a precise statement of the scope encompassed by the audit;

(2) a statement that the audit was performed in accordance with generally accepted government auditing standards;

(3) a statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination;

(4) a statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;
(5) a statement that internal control systems were examined and a report of any material weaknesses found in the internal control systems;

(6) statements of response submitted by the audited department, board or agency relevant to the audit findings;

(7) a concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;

(8) recommendations for additional necessary or desirable action.

SECTION 10. Report of Irregularities

If the auditor detects apparent violations of law or apparent instances of misfeasance or nonfeasance by an officer or employee or information that indicates derelictions may be reasonably anticipated, the auditor shall report the irregularities in writing to the legislative body/board or, in the case of a special audit, to the chief executive officer. If the irregularity is criminal in nature, the auditor shall immediately notify the appropriate chief prosecuting authority in addition to those previously cited.

SECTION 11. Contract Auditors, Consultants, and Experts

Upon approval of the legislative body/board during the budgetary process, the auditor may obtain the services of certified or registered public accountants, certified or registered in the state, qualified management consultants, or other professional experts necessary to perform the auditor's duties. An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the governmental unit or its officers. The auditor will coordinate and monitor auditing performed by public accounting or other organizations employed under contract by [NAME OF ENTITY] to assist with audit related activities. Contracting for external audits will be awarded in accordance with [NAME OF ENTITY]'s usual contracting procedures.

SECTION 12. Peer Review

The internal audit activities of the auditor's office shall be subject to peer review at least once every four years by a professional, non-partisan objective group utilizing guidelines endorsed by the National Intergovernmental Audit Forum, the State Auditor's Association, or the U.S. General Accounting Office. A copy of the written report of this independent review shall be furnished to each member of the legislative body.

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, adequacy of planning and supervision, sufficiency of workpaper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, and presentation of internal audit reports. The municipality shall reimburse travel and living expenses for the peer review team from funds budgeted in the auditor's budget.
Appendix 2

MODEL ELECTED AUDITOR CHARTER LANGUAGE
FOR LOCAL GOVERNMENTS

AN ORDINANCE/RESOLUTION presenting a proposed Charter Amendment to the people to establish the elected position of [NAME OF ENTITY] auditor and setting forth the conditions and specifics under which said official shall function.

WHEREAS no overall indicator of performance measurement such as profit in the private sector exists in [NAME OF ENTITY], and

WHEREAS the activity of expanded scope auditing independently reviews, evaluates and reports on the financial condition, the accuracy of financial record keeping, compliance with applicable laws, policies, guidelines and procedures, and efficiency and effectiveness of operations, and

WHEREAS management and employees in the public sector are responsible for important and material taxpayer remitted resources and should be held accountable for their use, and

WHEREAS it is vital and fair to effective government that the government exercise its power and perform its duties in compliance with law, policy, and established procedures and apply good judgment and sound management practices, and

WHEREAS the independence and public accountability of the auditor can be assured by provision for an elected auditor,

NOW THEREFORE BE IT ORDAINED/RESOLVED THAT the following Charter amendment be presented to the people for vote at the [TYPE] election to be held on [DATE].

SECTION 1. Elected Auditor
The office of elected auditor of [NAME OF ENTITY] is hereby established.

SECTION 2. Term of Office
The term of the auditor shall be (four or six) years.

SECTION 3. Nonpartisanship
The position of the auditor shall be nonpartisan.

SECTION 4. Professional Certification
If the auditor is not a Certified Public Accountant (CPA), he or she shall appoint at least one deputy who is certified as a CPA.
SECTION 5. Compensation

The auditor shall be compensated at a rate set by the audit committee and the salary shall be reviewed annually or as otherwise provided by statute.

SECTION 6. Funding

Sufficient funds shall be provided to carry out the responsibilities specified herein.

SECTION 7. Restrictions on Other Candidacy

Filing for another elective office over which the auditor has audit jurisdiction will be the same as a resignation, effective as of date of filing.

SECTION 8. Audit Scope, Standards, and Schedule

The auditor shall have the authority and responsibility to conduct broad-scope internal audits or special studies of all phases of [NAME OF MUNICIPALITY] government in accordance with generally accepted government auditing standards. Such audits may include financial, compliance, efficiency and economy, and program results auditing. The auditor shall consult with the [GOVERNING BODY] regarding the selection of audit entities, but the final decision of what to audit shall remain with the auditor. The auditor shall furnish the [GOVERNING BODY] with a planned audit schedule by the beginning of each fiscal year. Additionally, the auditor may spontaneously initiate and conduct any other audit deemed necessary to undertake.

SECTION 9. Access to Records and Property

The auditor shall have unrestricted access to all records and property pertaining to [TYPE OF MUNICIPALITY] business and activity, subject to applicable privacy laws.

SECTION 10. Audit Reports

Each internal audit conducted by the auditor shall result in a written report. These reports shall be made available to the public and the media. The auditor shall retain workpaper files concerning all internal audit reports issued for at least six years.

SECTION 11. Responses to Audit Reports

The auditor shall furnish a final draft of each internal audit report to the audited entity for review and comment before it is released. The responsible official must respond in writing to the auditor's recommendations within ten working days, or within the time frame specified by the auditor.

SECTION 12. External Audits

Subject to consultation with the [GOVERNING BODY] the auditor shall appoint external Certified Public Accountants to conduct certified financial statement audits, as specified by state or local law. The auditor shall coordinate and monitor the conduct of, and responses to, external financial statement audits. The auditor shall work toward the elimination of duplicative audit work through cooperation with state and federal auditors.
SECTION 13. Audit Committee

If the auditor also serves as a municipal financial official (or major program administrator), an audit committee consisting of three appointees of the auditor and three appointees of the [GOVERNING BODY] shall review the conduct of the internal audit function, including oversight of potential conflicts of interest; and the hiring of, and coordination with, external auditors.
AN ORDINANCE amending the Code of [ENTITY], by adding a new Chapter [NUMBER] entitled "Elected Auditor's Internal Audit Function," setting forth the specifics under which the internal audit division of the [MUNICIPAL] auditor's office shall function.

The [GOVERNING BODY] ordains:

SECTION 1. The [GOVERNING BODY] finds:

a. Accountability is inherent in the governing process of this nation. Officials and employees who manage public programs are obligated to justify to the public their methods and purposes in appropriating, applying, and using public resources.

b. Public officials, government managers, and private citizens want and need to know not only whether government funds are handled properly and in compliance with laws and regulations, but also whether public programs are achieving the purposes for which they were authorized and funded, and, whether they are doing so efficiently and economically.

c. An independent internal auditing function can provide objective information on the operations of government programs, assist managers in carrying out their responsibilities, and help ensure full accountability to the public.

d. An effective internal auditing function requires that audit results be accepted and used by public officials. Acceptance requires that the audit function be understood and recognized as valid, and that it be established on a firm foundation of professional competence.

e. Standards for the conduct and practice of governmental auditing have been developed by the Comptroller General of the United States in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions.

f. The internal audit function in the [NAME OF ENTITY] approved by the voters through Charter amendment on [DATE], should adhere to these standards in order to ensure that public officials and employees understand the role and function of internal auditing, to lend consistency and credibility to ongoing audit work, and to provide a basis for monitoring and evaluating the work of audit staff.

NOW, THEREFORE, the [GOVERNING BODY] directs:

a. The [GOVERNING BODY] hereby establishes a new Chapter [NUMBER] in the Code of the [NAME OF ENTITY], adding a new Chapter to be numbered, titled and read as follows:
Chapter [NUMBER]

ELECTED AUDITOR'S INTERNAL AUDIT FUNCTION

Sections:

1. Independence.
2. Scope of Audits.
3. Annual Audit Plan.
4. Special Audits.
5. Access to Records and Property.
7. Audit Reports.
10. Peer Review.

SECTION 1. Independence

a. An internal audit division is hereby created within the elected auditor's office, answerable directly to the auditor in accordance with Charter Section [NUMBER].

b. The internal audit division will adhere to generally accepted government auditing standards in conducting its work and will be considered independent as defined by those standards.

c. If the internal audit division conducts an audit of an activity for which the elected auditor is or was responsible, the audit scope will state that the internal auditors are not organizationally independent with regard to the entity being audited.

SECTION 2. Scope of Audits

a. The auditor shall conduct expanded scope audits of all bureaus, offices, boards, activities, functions and agencies of the [NAME OF ENTITY] to independently determine whether:

(1) activities and programs being implemented have been authorized by municipal Charter or Code, state law or applicable federal law or regulations;

(2) activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by municipal Charter or Code, state law or applicable federal law or regulations;

(3) activities or programs efficiently and effectively serve the purpose intended by municipal Charter, Code, state law or applicable federal law or regulations;

(4) activities and programs are being conducted and funds expended in compliance with applicable laws;
(5) revenues are being properly collected, deposited and accounted for;

(6) resources, including funds, property and personnel, are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;

(7) financial and other reports are being provided that disclose fairly and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities;

(8) there are adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls which have been established by management; or

(9) there are indications of fraud, abuse or illegal acts which need further investigation.

b. Audits shall be conducted in accordance with generally accepted government auditing standards applicable to financial and performance audits.

SECTION 3. Annual Audit Plan

a. By the beginning of each fiscal year, the auditor shall submit an annual plan to [GOVERNING BODY] for review and comment. The plan shall include the bureaus, offices, boards, activities, functions and agencies scheduled for audit during the year. This plan may be amended during the year after review with [GOVERNING BODY] affected by the change. Additionally, the auditor may spontaneously 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 should consult with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be properly coordinated.

SECTION 4. Special Audits

a. [GOVERNING BODY] members may request that the auditor perform special audits that are not included in the annual audit plan. After consultation with [GOVERNING BODY] members whose work would need to be postponed, special audits may become amendments to the annual audit plan.

b. Special audit reports will be handled the same as regular audit reports, except that in personnel matters of a confidential nature, reporting of results may be limited to the [BUREAU HEAD] and the [PRESIDING OFFICER] of the [GOVERNING BODY].
SECTION 5. Access to Records and Property

All officers and employees of the [NAME OF ENTITY] shall furnish 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 [GOVERNING BODY] approval, may, without fee, cause 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 exhibits to the auditor.

SECTION 6. Bureau Response

A final draft of each audit report will be forwarded to the audited bureau and the responsible [GOVERNING BODY] member for review and comment before it is released. The bureau must respond in writing specifying agreement with audit findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The response must be forwarded to the auditor within the time frame specified by the auditor. The auditor will include the full text of bureau and [GOVERNING BODY] member in the report.

SECTION 7 Audit Reports

a. Each audit will result in a written report.

b. The auditor will submit each audit report to the [GOVERNING BODY] and will retain a copy in his/her office as a permanent record. Supporting workpapers shall be retained for three years. A copy shall be filed with the municipal clerk and/or the municipal library.

c. If appropriate, the audit report shall contain the professional opinion of the auditor or the contract auditor concerning the financial statements issued by the bureau, board or agency; or if the audit is an expanded scope audit, the report will contain the professional conclusions of the audit regarding the management activities audited.

c. The auditor shall include in the audit reports:

   (1) a precise statement of the scope encompassed by the audit;

   (2) a statement that the audit was performed in accordance with generally accepted government auditing standards;

   (3) a statement that an examination for compliance with applicable laws, policies and regulations was conducted and presentation of the findings associated with that examination;
(4) a statement of the significant audit findings, including a statement of the underlying cause, evaluative criteria used and the current and prospective significance of the findings;

(5) a statement that internal control systems were examined and a report of any material weaknesses found in the internal control systems;

(6) statements of response submitted by the audited bureau, board or agency relevant to the audit findings;

(7) a concise statement of the corrective actions previously taken or contemplated as a result of the audit findings and a time table for their accomplishment;

(8) recommendations for additional necessary or desirable action.

SECTION 8. Report of Irregularities

If the auditor detects apparent violations of law or apparent instances of malfeasance or nonfeasance by an officer or employee or information that indicates derelictions may be reasonably anticipated, the auditor shall report the irregularities to the [PRESIDING OFFICER] of the [GOVERNING BODY]. If the irregularity is criminal in nature, the auditor shall immediately notify the municipal attorney and the prosecuting attorney in addition to those previously cited.

SECTION 9. Contract Auditors, Consultants, and Experts

Within budget limitations, the auditor may obtain the services of Certified Public Accountants, qualified management consultants, or other professional experts necessary to perform the auditor's duties. An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the governmental unit or its officers. The auditor will coordinate and monitor auditing performed by public accounting or other organizations employed under contract by the [NAME OF ENTITY] to assist with audit-related activities.

Contracting for the external audit will follow [ENTITY]'s normal contracting processes. The auditor's selection of a certified public accounting firm for the annual financial audit must be approved by [GOVERNING BODY]. Normally, this contract will be for a three year period.

SECTION 10. Peer Review

The internal audit activities of the auditor's office shall be subject to peer review at least once every four years by a professional, non-partisan objective group utilizing guidelines endorsed by the National Intergovernmental Audit Forum, the State Auditor's Association, or the U.S. General Accounting Office. A copy of the written report of this independent review shall be furnished to each member of the [GOVERNING BODY].
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, adequacy of planning and supervision, sufficiency of workpaper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, and presentation of internal audit reports. The municipality shall reimburse travel and living expenses for the peer review team from funds budgeted in the auditor's budget.