

Frequently Asked Questions About the Internal Audit Process

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1. What is Auditing?

According to the Institute of Internal Auditors, 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. (International Standards for the Professional Practice of Internal Auditing).

2. What does Internal Audit do?

Public trust and confidence are increased when management is held accountable for the accuracy and completeness of the financial records, selecting sound accounting principles, maintaining adequate internal control, and identifying and ensuring compliance with applicable laws and rules governing its activities. When court offices and programs are reviewed through the audit process, information is provided to management that helps improve or strengthen internal control or operations.

Types of Audits (Assurance Activities)

Per UCA 63-91-401 and CJA Rule 3-415, the department performs audits defined as Special, Limited, Short and Full scope fiscal and performance audits:

- Special audits are those requested by a court manager that have not been included in the yearly plan.
- Limited audits may be authorized by the state court administrator in the event of a reported theft, burglary or other alleged criminal act or suspected loss of monies or property at a court location, or if a change occurs in the personnel responsible for fiduciary duties.
- Short scope and Full scope fiscal audits determine if one or more of the following management objectives are met:
 - Financial and court records are accurate and reliable;
 - Employees comply with management policies, plans, procedures, applicable laws and judicial rules;
 - Judicial resources are used efficiently and effectively; and

- Employees properly account for and safeguarded assets.
- During a Short or Full scope fiscal audit, the internal auditor is required to objectively assess the performance of a court office, department, or process. Performance audits measure efficiency and effectiveness of operations.

3. What can my court expect during an audit?

Detailed audit program steps for conducting Short and Full fiscal audits have been developed to ensure coverage of high risk areas and subject to revision for each level of court. An audit consists of several phases including; an entrance conference, preliminary survey, fieldwork, draft report, exit conference, final report, and follow-up review.

Entrance Conference

The entrance conference provides court/program manager an opportunity to:

- become familiar with the scope and objectives of the audit,
- discuss additional areas of concern that management would like included in the scope of the audit,
- determine what assistance auditors will need, and
- receive an estimated time-line and completion date.

Preliminary Survey

During the survey phase, auditors seek a thorough understanding of the court operation or program under review. They spend time interviewing key personnel, observing activities, reviewing organizational charts, reading policies and procedures and researching applicable laws and judicial rules. The audit criteria, establishing the standard, are identified. Audit program steps are adjusted based on professional judgment.

Fieldwork

During this phase, auditors conduct tests of transactions (on and off-site) that may include one or more of the following:

<u>Testwork</u>	<u>Example</u>
<u>Observation</u>	Observe the cashiering process to see if the clerk(s) restrictively endorses checks upon receipt
<u>Inquiry</u>	Interview clerk to determine if delinquent accounts are monitored and the procedures are effective
<u>Sampling</u>	Checking a sample of documents for approval signatures
<u>Re-performance</u>	Reconcile bank statements

Tests of transactions seek to provide reliable answers to the following questions:

- What actually occurs?
- How does that compare to what is supposed to occur (criteria)?
- Are proper internal controls in place?
- How could the process be improved?

For each area reviewed, the observations are evaluated based on the facts and

importance. The condition, cause, and effect are reported. Audit recommendations are developed to assist court management in implementing corrective action.

Draft Report

After fieldwork is completed, a draft report is presented to the court manager and state level administrator before the exit conference. The draft report identifies observations, recommendations, and recognition for commendable court operations when appropriate.

Exit Conference

During the Exit Conference, over all observations and recommendations are discussed. The auditee (court management) is encouraged to ask questions and/or present additional information. The discussion at the Exit Conference helps ensure that there has been no misunderstandings or misinterpretation of fact. After the Exit Conference, court management submits written responses to each observation and recommendation. Each response details the actions to be taken, the employee responsible, and the implementation date. The responses are included in the final report.

Final Report

Once the revision process is complete and auditee responses included, the final report is issued in accordance with Code of Judicial Administration Rule 3-415 (7) (B).

Follow-up Review

Within 12 months of an audit, the court manager receives a Follow-up Review form including the audit observations that required corrective action. Court management completes the form by reporting on progress made on resolving audit issues. Court management provides a copy of the completed Follow-up Review Form to the internal audit director and state level administrator.

4. What other services does AOC Audit Services provide?

The internal audit department provides consulting services to administrators, program and court managers on a regular basis. Examples of consulting services include process design, advisory, research, judge and employee training, and committee membership.

5. How can I contact AOC Audit Services?

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