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	260.00 COMMUNICATIONS LAST REVISED: JULY 1, 2019	

COMMUNICATIONS

DEFINITION –

Transfer of information, concepts and ideas expressed through verbal and written (and other non-verbal) forms.

BACKGROUND –

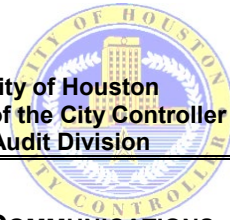
According to COSO, pertinent information must be identified, captured and **communicated** in a form and timeframe that enable people to carry out their responsibilities. Effective communication, in the broadest sense, flows in all directions throughout an organization. All personnel must receive a clear message from top management that control responsibilities must be taken seriously, commonly referred to as ‘tone at the top’. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There also needs to be effective communication with external parties, such as customers, suppliers, regulators, and other stakeholders. The ultimate goal of organizational communication is to facilitate the effective utilization of resources towards the achievement of the stated objectives. This is accomplished through management of risk and the implementation of processes with adequate and effective internal controls. This is true, regardless of the organization and its function.

Audit/Engagement communication encompasses the exchange of information between the AD, clients/auditees, elected officials, and other stakeholders of the City in relationship to a specific project. This includes modifications to scope, concerns, findings, conclusions, recommendations, etc. Additional communications between the AD, and other elected officials are embedded in [Policy No. 120.00](#) and [Procedure No. 220.10](#).

The focus of this procedure, however, is limited to only a piece of organizational communication from the perspective of the AD, its communication protocol throughout the audit/engagement process, and its interaction with the CC and other elected officials in the discharge of its function according to the AD Charter.

PURPOSE –

- Provide a clear understanding of the expectations related to objectives, scope, and methodology of audits/engagements that the AD performs;
- Provide a framework for an accurate, objective, clear, concise, constructive, complete, and timely flow of information throughout the AD function and between all stakeholders;
- Manage engagement risk; and
- Provide an engagement deliverable, which represents the report of findings, recommendations, commendations, and conclusions.



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APPROACH AND METHODOLOGY –

The AD employs the following methods of communication in addressing the requirements as outlined in the professional standards. Additionally, we indicate the key elements of each as a procedure specific to the AD (see example links in sub-sections below). Finally, a checklist is used to support compliance with professional standards and assure efficient and effective communications.

CITY AUDITOR –

As mentioned in the associated [Policy No. 120.00](#) and [Procedure No. 220.10](#), part of the process in developing and approving the AD's Annual Audit Plan (*The Plan*) is to communicate the proposed activities and resource requirements (and any related impact of resource limitations) based on associated risk(s) to the CC. *The Plan* is the AD's communication to its stakeholders of the expected performance for the upcoming fiscal year. Periodic status updates and changes to *The Plan* based on interim events, are communicated to the CC, along with the results of the Quality Assurance and Improvement Program.

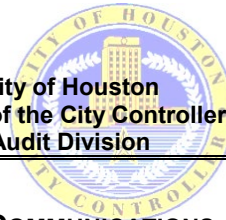
AUDIT/ENGAGEMENT ASSIGNMENT AND IDENTIFICATION

In executing *The Plan*, the order that the audits/engagements are performed is up to the discretion of AD management. Typical factors that influence this are: internal resource expertise and availability, client considerations, external service providers, etc. Generally, once an audit/engagement is ready to be performed, the Lead Auditor is assigned. Audit/Engagement planning usually begins at this point by refining audit/engagement objectives, identifying potential resources needed to complete the project, and the expected form of deliverable (report). These are facilitated through meetings between the Audit Manager, Lead Auditor and other team members identified thus far. Notes from these meetings and decisions derived from them can be included in the Audit/Engagement Planning Documentation. When non-audit services are being performed, independence is specifically considered when determining scope. The AD considers the ability of the audited entity's management to oversee and review the work being done and/or assesses if sufficient safeguards can be put in place to mitigate any potential impairment to independence.

AUDIT/ENGAGEMENT NOTIFICATION LETTER

The Notification Letter is a formal correspondence that announces and communicates the initial objective, scope, methodology, timing, and deliverable of the audit/engagement. For Non-Audit services, the communication outlines the parameters of the procedures/work to be performed and clearly identifies management's responsibility for the final deliverable/service. It is issued by the CC and is addressed/sent to:

- Department Director(s) or Management of the audited entity, including those with sufficient authority and responsibility to implement corrective action, and



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- Those charged with governance.

The following are generally copied in the Notification Letter:

- Mayor's Chief Administrative Officer;
- Mayor's Chief of Staff;
- City Auditor;
- The individuals contracting for or requesting audit services, such as contracting officials, grantees; and
- External Service Providers involved in the engagement.

The letter will also identify the Audit Manager and the Lead Auditor assigned to the audit/engagement along with the phone numbers of the CA and Audit Manager, should the client/auditee have questions or comments concerning the audit/engagement. The Notification Letter becomes part of the workpaper documentation.

INFORMATION REQUEST OR REQUEST(S) FOR INFORMATION (RFI)

RFIs are performed throughout the audit/engagement and are intended to gather necessary information to complete the related procedures and fulfill the underlying objectives. They can be communicated in the form of a document, an email, or verbally. When formally presented in writing or email, these requests are referred to as 'RFIs'.

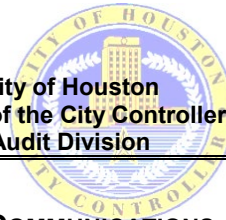
The initial RFI will be submitted in writing to the Department Director (or their designee), which typically includes, but is not limited to:

- Organizational Chart(s);
- Policy and Procedures;
- SOPs;
- Process Diagrams;
- Identification of applicable regulatory bodies, laws, statutes, guidance;
- Underlying Contracts;
- Identification of information systems used;
- Financial information relevant to the engagement; and
- Prior audits/engagements, reviews and/or other reports (from internal audit/monitoring functions and/or external service providers or enforcement agencies).

Subsequent RFIs should be addressed to the audit/engagement contact person and consider the following:

- Be sequentially numbered or uniquely identified;
- Identify the purpose for the requests;
- Be specific to avoid miscommunication or delays (use relevant terminology);
- Identify the anticipated or required date for receipt;
- Identify status (e.g., open or received, etc.); and
- Utilize engagement scope parameters.

NOTE: RFIs become part of the workpaper documentation.



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ENTRANCE CONFERENCE

The entrance conference is a meeting that traditionally signifies the beginning of the project, commencing with preliminary survey and fieldwork. It is attended by the audit/engagement team (staff, supervisor, manager, and, when deemed appropriate, the CA) and client/auditee representatives (may include the Department Director, Executive Management, Division and/or functional managers, liaison/contacts, and staff). The primary goals of the entrance conference are to provide the opportunity to:

- Communicate the audit/engagement scope, objectives, timeline, and type of deliverable;
- Establish rapport between the AD and the client/auditee and identify points of contact;
- Communicate mutual expectations from all parties for successful performance;
- Address client concerns, administrative issues logistics, etc.;
- Audit/Engagement team requirements (e.g., work space, network connections, email access, communications, etc.); and
- Receive items outlined in the initial RFI.

In considering the goals outlined above and to efficiently facilitate the entrance conference, an agenda should be prepared by the Lead Auditor and approved by the Audit Manager. The agenda should minimally include:

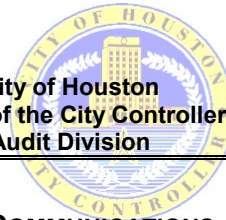
- Introduction;
- Discussion of preliminary objectives;
- Identification of client audit contacts;
- Additional requests for Information (if applicable at the time);
- Office and administrative requirements;
- Audit/Engagement reporting process; and
- Questions and answers.

NOTE: A sign-in/roster sheet should be circulated during the meeting, which should be included in the audit/engagement workpapers along with a copy of the agenda and any de-briefing notes that are deemed to be relevant. A key reason for having sign-in sheets for meetings is to validate attendance.

INTERIM COMMUNICATIONS –

Throughout the engagement, regular communications should take place between the audit team and the auditee and include (but not limited to):

- Status updates of project progress
- Concerns related to timeliness or quality of information
- Modifications to scope of work
- Outstanding items
- Changes in status to either: conflict of interest and/or independence, etc.



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Results of these communications that impact further work, scheduling, budget, scope, etc. are documented in the workpapers accordingly. Significant issues identified during the interim period that affect the entity will be communicated with Responsible Management, City Governance and may also include the Ethics Committee.

ELECTRONIC AND VOICE/VERBAL COMMUNICATIONS –

E-mail correspondence is a form of communication that can be used as support for various purposes. It most often provides an historical thread of dialogue between parties that reflect a pattern of inquiry, gaining consensus, addressing concerns, responding to requests, and can include embedded document attachments or links. These are acceptable forms of evidence that can become part of the workpapers.

Voice (Verbal) Communications commonly takes place via the phone or in person through meetings and/or interviews. Conversations are typically not electronically recorded (except for voicemails), but notes should be taken which reference the conversations or messages and thus are also possible forms of evidence to be included in the workpapers. Generally, any conversation that takes place which impacts or supports a conclusion should be documented/referenced and included in the workpapers.

FINDINGS –

A Finding is a document used to communicate possible issues when identified (prior to the completion of the draft audit report). Findings should be reviewed and approved by the Audit Manager prior to issuance to the client/auditee. The elements of a Finding should include:

- Subject (Title of the issue/finding);
- Criteria (Background);
- Condition;
- Cause; and
- Effect or potential effect (significance/materiality)

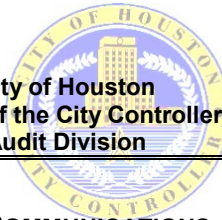
Findings will generate the additional elements below:

- Recommendation/Commendations; and
- Action taken/Management Responses (corrective action taken by client/auditee or disagreement with finding).
- Assessment of Management Responses

NOTE: For more information on Findings, see [Procedure No. 240.00](#)
Communication of Findings can be addressed in primarily one of two ways:

VERBAL – the issue identified is deemed outside of the scope of the audit/engagement and is not ranked as significant in likelihood or impact.

REPORTABLE –the issue identified is deemed significant to the scope of the audit/engagement and ranked as likely and having impact.



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DRAFT ENGAGEMENT REPORT/DELIVERABLE –

The draft audit/engagement deliverable is the first comprehensive presentation of findings, conclusions, and recommendations given to the client/auditee. It is generally prepared by the Lead Auditor, and will be initially reviewed by the Audit Manager, with final review conducted by the CA and CC. It contains the following sections:

- Purpose/Scope;
- Objective;
- Background;
- Executive summary (if applicable);
- Overall assessment (conclusion);
- Detail findings in the body of the report (supported and referenced by findings and workpapers); and
- Exhibits.

The AICPA standards require certain language for attestation engagements related to examinations, reviews and agreed-upon procedures. For example, a review report is substantially less than scope than an audit and requires an expression of negative assurance language in the report indicating that nothing came to the auditor's attention that suggests the statements do not comply with applicable accounting requirements; are not fairly presented in conformity with GAAP applied on a consistent basis; or do not fairly present information shown therein. Negative assurance is given because the auditor has not made an examination in conformity with Generally Accepted Auditing Standards (GAAS). Consideration to this additional reporting requirement must be considered under such attestation type audits. The audit/engagement contact(s) will then receive copies of the draft report for review of the accuracy of factual content which can be discussed and resolved during the exit conference, if requested.

EXIT/CLOSING CONFERENCE

Generally, the purpose of the exit/closing conference is to delineate the end of fieldwork, with a presentation or formal discussion of the findings, conclusions, and recommendations. The draft deliverable (report) is the basis for these discussions, from which clarifications, corrections and/or revisions can be made. Occasionally, supplemental information can be obtained as a result of issues discussed at the exit/closing conference, which would be included in the workpapers, as appropriate. An exit conference summary will be prepared and included in audit workpapers.

REQUEST FOR MANAGEMENT RESPONSES

After the review, questions, and comments by the client, the revised draft audit report will be submitted to the Department Director and other key parties along with a request for an official management response to each applicable finding which will be included in the final audit report. Additionally, management is requested to submit an "Acknowledgement" document verifying that responses in the report are those of responsible management. This version of the report/deliverable is considered the "Final Report".

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FINAL REPORT/DELIVERABLE –

The Final Engagement Deliverable is the combination of the:

- Transmittal letter issued by the CC;
- Final draft report/deliverable sent under 14-day letter;
- Management responses and other relevant Exhibits; and
- AD assessment of management responses, if applicable

The transmittal letter is signed by the CC, and the final deliverable/report is signed by the CA, the Audit Manager and the Lead Auditor. Most Final Engagement Deliverables/Reports are posted on the CC’s website.

NOTE: For more information on the reporting process, see related [Procedure No. 250.00](#)

REPORT/DELIVERABLE DISTRIBUTION –

The final report/deliverable is distributed to the Mayor, City Council, Department Management responsible for the subject matter reviewed/audited, and is posted on the CC’s Website for public access. There are certain cases where sensitive information is not released using the normal protocol, but rather is restricted in its distribution. Examples of this are for security issues, privacy, homeland security, and certain law-enforcement proceedings and/or personnel information, etc.

SUBSEQUENT EVENTS –

If after issuing the final report/deliverable, it is discovered that an error or omission has occurred, AD management and the Audit/Engagement team will meet to determine the magnitude and impact of the error/omission. If it is deemed that the error/omission would significantly impact decisions of the readers of the report, a formal communication will be distributed. This communication can come in the form of reissuance of the report or memorandum through the same distribution channels as the final deliverable.

RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE

GAGAS:

FINANCIAL AUDITS	<u>6.06 – 6.10</u>
ATTESTATION ENGAGEMENTS	<u>7.09 – 7.12</u>
PERFORMANCE AUDITS	<u>8.20 – 8.26</u>

IIA STANDARDS

- 1000 - PURPOSE, AUTHORITY, AND RESPONSIBILITY
- 1111 - DIRECT INTERACTION WITH THE BOARD (MANAGEMENT)
- 1220 - DUE PROFESSIONAL CARE


City of Houston
Office of the City Controller
Audit Division

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- 1320 - REPORTING ON THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAM
- 2020 - COMMUNICATION AND APPROVAL
- 2060 - REPORTING TO SENIOR MANAGEMENT AND THE BOARD
- 2100 – NATURE OF WORK
- 2400 - COMMUNICATING RESULTS
- 2410 - CRITERIA FOR COMMUNICATING
 - 2410.A1
 - 2410.A2
 - 2410.A3
 - 2410.C1
- 2420 - QUALITY OF COMMUNICATIONS
- 2421 - ERRORS AND OMISSIONS
- 2431 - ENGAGEMENT DISCLOSURE OF NONCONFORMANCE
- 2440 - DISSEMINATING RESULTS
 - 2440.A1
 - 2440.A2
 - 2440.C1
 - 2440.C2
- 2500 - MONITORING PROGRESS

IIA IMPLEMENTATION GUIDANCE

- 1000 - PURPOSE, AUTHORITY, AND RESPONSIBILITY
- 1111 - DIRECT INTERACTION WITH THE BOARD (MANAGEMENT)
- 1220 - DUE PROFESSIONAL CARE
- 1320 - REPORTING ON THE QUALITY ASSURANCE AND IMPROVEMENT PROGRAM
- 2020 - COMMUNICATION AND APPROVAL
- 2060 - REPORTING TO SENIOR MANAGEMENT AND THE BOARD
- 2100 – NATURE OF WORK
- 2400 - COMMUNICATING RESULTS
- 2410 - CRITERIA FOR COMMUNICATING
- 2420 - QUALITY OF COMMUNICATIONS
- 2421 - ERRORS AND OMISSIONS
- 2431 - ENGAGEMENT DISCLOSURE OF NONCONFORMANCE
- 2440 - DISSEMINATING RESULTS
- 2500 - MONITORING PROGRESS

CHANGE HISTORY

CHG #	DATE	SECTION	DESCRIPTION/REASON
1	7/1/2019	Relevant Professional Standards	Updated to reflect updates to Professional Standards