

Office of the City Auditor

City of San Diego

Blending of Investigators and Auditors Standards and Approaches

**Presentation to the Western Intergovernmental Audit Forum
September 18, 2014**

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Independent • Objective • Accurate

Agenda

1. Overview of Audit standards and Investigations standards.
2. Approaches to Auditor-Investigator coordination.
3. Scope and standards for Audits versus Investigations (OIG).
4. Challenges and overcoming those challenges (OIG).

Overview of Standards

Auditors

- GAO's (Yellow Book)
GAGAS Standards
- IIA's IPPF (Red Book)
- AICPA Standards
 - COSO Framework
 - COBIT Framework
 - SEC/ SOX Compliance

Investigators

- ACFE Standards
- Administrative/
Employment Standards
- Ethics Commission/
FPPC
 - Criminal Law
 - Civil Law

Yellow Book Standards

- 6.30 In planning the audit, auditors should assess risks of fraud... Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud...
- 6.31 ...Assessing the risk of fraud is an ongoing process throughout the audit and relates not only to planning the audit but also to evaluating evidence obtained during the audit.
- 6.32 When information comes to the auditors' attention indicating that fraud, significant within the context of the audit objectives, may have occurred, auditors should extend the audit steps and procedures... If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement, or refer the matter to other parties with oversight responsibility or jurisdiction.

Yellow Book Standards

- 6.35 Avoiding interference with investigations or legal proceedings is important in pursuing indications of fraud...In some cases, it may be appropriate for the auditors to work with investigators or legal authorities, or withdraw from or defer further work on the audit or a portion of the audit to avoid interfering with an ongoing investigation or legal proceeding.
- 7.21 When auditors conclude, based on sufficient, appropriate evidence, that fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse either has occurred or is likely to have occurred which is significant within the context of the audit objectives, they should report the matter as a finding...

Red Book Standards

- 1210.A2 Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
- 2120.A2 The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.
- 2210.A2 Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

AICPA Standards

- 110.02 The auditor has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
- 110.03 The financial statements are management's responsibility. The auditor's responsibility is to express an opinion on the financial statements. Management is responsible for adopting sound accounting policies and for establishing and maintaining internal control...
- **AR = DR x IR x CR**

ACFE Standards

- Fraud Examinations... Certified Fraud Examiners shall establish predication and scope priorities at the outset of a fraud examination and continuously reevaluate them as the examination proceeds... CFEs shall consider both exculpatory and inculpatory evidence.
- Evidence... CFEs shall be cognizant of the chain of custody including origin, possession and disposition of relevant evidence and material... The extent of documentation shall be subject to the needs and objectives of the client or employer.
- Report Content... Certified Fraud Examiners' reports shall be based on evidence that is sufficient and relevant to support the facts, conclusions, opinions and/or recommendations related to the fraud examination. The report shall be confined to subject matter, principles and methodologies within the member's area of knowledge, skill, experience, training or education... No opinion shall be expressed regarding the legal guilt or innocence of any person or party.

Administrative Standards

- Employment Law – Federal, state, and local laws and regulations protect employee rights.
- Labor agreements affect the rights of represented employees.
- Civil Service Rules, Personnel, and Administrative Regulations are also factors to consider.

Ethics Commission/ FPCC

- The City of San Diego's Ethics Commission was formed in 2001 to advise and educate City officials, candidates, political committees, and lobbyists about governmental ethics laws.
- Also responsible for conducting investigations, referring violations to appropriate enforcement agencies, and auditing disclosure statements.
- Fair Political Practices Commission (FPCC) investigates alleged violations of the Political Reform Act, imposes penalties when appropriate, and assists state and local agencies in the development and enforcement of conflict-of-interest codes.

Summary of Standards

1. Numerous standards apply to Auditors and Investigators.
2. Careful planning and coordination is critical.
3. Legal advice should be sought early and often.

Approaches

- Approaches to Auditor and Investigator interactions vary.
- Audits and Investigations may be either simultaneous or there may be a formal handoff.
- Triggers for Investigator involvement may include: any sign of fraud during fieldwork, suspicion of fraud during fieldwork, preliminary evidence of fraud gathered during fieldwork, after fieldwork is complete.

Simultaneous

Audit

Investigation

- Investigator may be a part of the Audit team.
- The Audit team and Investigators may be segregated by a firewall.
- Potential complications regarding chain of custody standards for evidence, conflicting statements, burdens of proof, training, and other issues may arise.

Planning Phase

Audit

Investigator

- Yellow Book standards require Audit team members to brainstorm about fraud. The Fraud Investigator may take part in brainstorming sessions.
- Fraud Investigators may provide background information regarding Fraud Hotline complaints associated with the Audit.

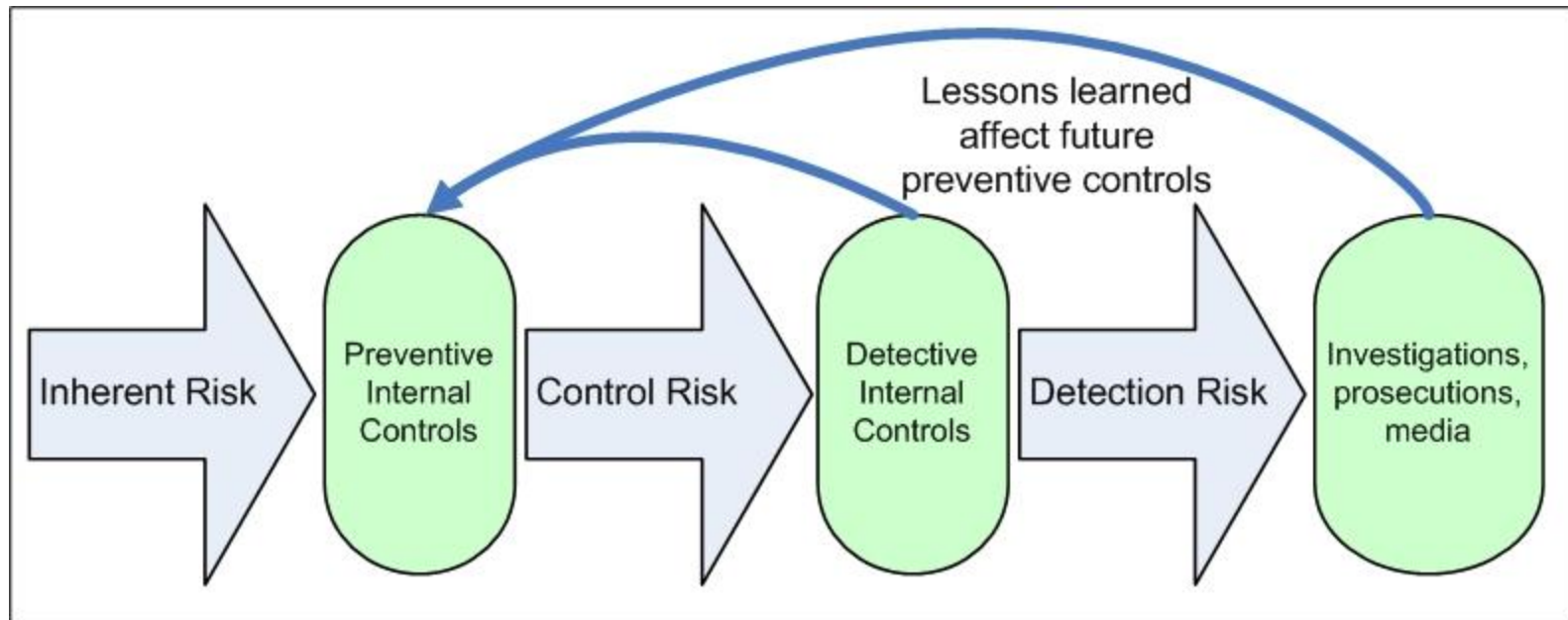
Fieldwork Phase

Audit

Investigation

- An investigation may be initiated during fieldwork when there is:
 - Any sign of fraud
 - A suspicion of fraud
 - Preliminary evidence of fraud has been gathered
 - After fieldwork is complete

Feedback Loop



Conclusion

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