

Explaining the Audit Process

The Controller's Office is an important part of Philadelphia City government, serving as the chief auditor for the City of Philadelphia and the financial auditor for the Philadelphia School District, performing audits to ensure they are operating efficiently, effectively and appropriately.

What kinds of audits does the Controller's Office perform?

To ensure that the financial affairs of City officers, departments, boards, commissions and other agencies are reviewed, the Controller's Office conducts financial, performance, compliance and departmental audits.

- A **financial** audit provides an independent examination of financial statements, which increases the value and credibility of the financial statements produced by the administration to be relied on by a purchaser or potential purchaser of the City's debt and thus affects the City's bond rating and cost of borrowing.
- A **performance** audit is designed to examine efficiency and effectiveness of a program, with the goal of implementing improvements to reduce costs and make other improvements.
- A **compliance** audit, such as the Single Audit of federal and state grants received by the City, determines whether a program is operating in compliance with statutes, regulations, laws, policies and procedures, and terms and conditions of federal and state contracts.
- A **departmental** audit determines whether internal controls over accountability of financial resources, safeguarding of assets, and compliance with non-grant related laws and regulations at the departmental level were suitably designed and placed in operation. In the instance that an audit identifies operational or administrative shortcomings, the Controller's Office will make recommendations for addressing or improving these problem areas.

How long does an audit take?

Several factors impact the length of time an audit will take, including the size and complexity of the audit.



Explaining the Audit Process - Step by Step

The process may vary slightly in every audit, but the steps below are typically included.

Notify department – At the beginning of an audit, the Controller’s Office staff notifies the department or agency head that an audit is about to begin by preparing an engagement letter and/or scheduling an entrance conference with the auditee.

Hold entrance conference – At the entrance conference, Controller’s Office staff discusses the scope of the audit and begins the exchange of information needed during the audit.

Plan the audit – Controller’s Office auditors plan the audit by interviewing key staff and reviewing and observing processes and procedures. Through this, auditors gain an understanding of the department’s operations and internal controls, identify significant provisions of laws and regulations, and evaluate risks for systems subject to audit.

Conduct fieldwork - During fieldwork, auditors collect and analyze documentation in accordance with the audit plan and perform other necessary testing to enable the auditor to form conclusions on audit objectives. Depending on the audit, auditors may also follow-up on prior year findings. Any significant issues or findings identified in the audit are discussed with appropriate departmental officials and, in certain circumstances, pre-exit conferences are held.

Draft report – After fieldwork is complete, a draft report or management letter is written. This includes the results of observations, including any significant findings or issues identified during the course of the audit. Each finding should identify the issue noted and offer a recommendation for correcting the cause of the problem. At this point the report undergoes a series of reviews in accordance with the Controller’s Office’s system of quality control.

Complete the audit report – Once the report is finalized, it is shared with the department for review and comments. Departments are asked to attend an exit conference and provide a written response to ensure reports are fair, objective and complete.

Hold exit conference – At the exit conference, the Controller’s Office will present its findings to the department/agency. If the department/agency disagrees with any findings, they can provide information to contest it. Changes to the report draft, specific findings or recommendations may occur as a result of the exit conference. If they do, departments are given another opportunity to comment on the report before its release.

Include management’s response – Management of the department or agency has the opportunity to provide a written response to each finding and recommendation as part of the audit process. If they provide a response, it is included in the report. If a department declines to attend the exit conference or provide written comments, the Controller’s Office discloses that fact in the audit report’s cover letter, called a transmittal letter.

Release the audit – Once the department or agency’s response is incorporated into the report draft, the final version is released to the public.

