

Self-Assessment Quality Assurance of Internal Audit

Internal Audit Report

March 31, 2020



**Orange County
Public Schools**

Internal Audit

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From: Vince Roberts, CIA, Internal Auditor, Senior

Table of Contents

	Page Number
EXECUTIVE SUMMARY	1
BACKGROUND	2
OBJECTIVE, SCOPE, METHODOLOGY	3
OPINION	5
SELF-ASSESSMENT OBSERVATIONS AND COMMENTS	
Survey Results	5
Successful Internal Audit Practices	7
IIA's Attribute Standards Conformity	8
IIA's Performance Standards Conformity	9
IIA's Code of Ethics Conformity	10

EXECUTIVE SUMMARY

Why Internal Audit Did This Self-Assessment

As part of the Internal Audit Department's Quality Assurance and Improvement Program (QAIP), we periodically perform internal self-assessments to evaluate our conformance to the *International Standards for the Professional Practice of Internal Auditing* (the *Standards*) and the *Code of Ethics* issued by the Institute of Internal Auditors (The IIA) and to our own internal policies and procedures. This review also sought to identify opportunities for continuous improvement to enhance the effectiveness, efficiency, and value of the Internal Audit activity.

This self-assessment quality assurance assessment was included in 2019-2020 Annual Audit Plan.

What the Self-Assessment Found

Our overall conclusion is that the Internal Audit Department of Orange County Public Schools generally conforms to the *Attribute Standards*, *Performance Standards*, the IIA's *Code of Ethics*, and *Rules of Conduct*. This conclusion is based upon our assessment of these aspects of the department's work:

- implementation of the principles promulgated by the IIA,
- quality of work,
- auto work paper and documentation,
- tracking of audit recommendations,
- follow-up processes and management actions,
- experienced auditor team and their professionalism,

- strong leadership,
- establishment of effective policies and procedures, and
- effective communication and reporting practices.

The Internal Audit Department's practices and methodologies compare favorably with the *Standards*.

What the Self-Assessment Recommended

A few opportunity areas were identified to enhance the department's effectiveness and efficiency and allow the Internal Audit activity to build upon the value it already brings to the organization.

- Continue to ensure work papers include headings, audit period, source, purpose, date, auditor's initials, final reviewer's initials on each work paper.
- Continue to ensure Engagement checklists are completed and work papers are uploaded in the audit management system as evidence of the work done.
- Continue to ensure attributes of recommendations such as condition, criteria, effect, cause, and recommendation are included in the work papers.

This report has been discussed with the School Board Internal Auditor and she has prepared a response which is included with this report.

BACKGROUND:

Credibility with stakeholders is critical to an internal audit activity. Providing credible assistance and constructive advice to management requires professionalism. Professionalism, in turn, requires conforming to a set of professional standards. Orange County Public Schools (OCPS) Internal Audit Department conforms with the International Professional Practices Framework (IPPF) promulgated by the Institute of Internal Auditors (the IIA). Conformity to the IPPF helps the internal audit activity provide audit committee members, the School Board, and senior management with valuable assistance by giving objective assurance on governance, risk management, and control processes.

The IPPF is

- the conceptual framework that organizes authoritative guidance;
- a comprehensive set of mandatory and recommended guidance; and,
- considered the essential requirement for establishing and performing internal auditing.

The IPPF has two components:

- Mandatory guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*, and
- Recommended guidance, which includes Implementation Guidance and Supplemental Guidance, which describes practices for effective implementation of the IIA's mandatory guidance.

The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing:

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.

The Internal Audit Department, as a member of the IIA, must conform to the IPPF during:

- identification and assessment of risks;
- evaluation and validation of controls;
- validation of compliance with regulations and internal policy and procedures;
- assessment of effectiveness and efficiency of processes; and,
- reporting assurance to the audit committee, board members and senior management.

The IPPF requires Internal Audit to develop and maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity (*Standard 1300*). The QAIP must include both internal and external assessments. This periodic self-assessment quality assurance assessment is part of our internal assessment program that assists in our evaluation of conformance with the requirements of both the IPPF and our Internal Audit policies and procedures.

OBJECTIVES, SCOPE, AND METHODOLOGY:

Objectives

As part of the Internal Audit Department's Quality Assurance and Improvement Program (QAIP), we periodically perform internal self-assessments to evaluate our conformance to the *International Standards for the Professional Practice of Internal Auditing* (the *Standards*) and the Code of Ethics issued by the Institute of Internal Auditors (The IIA) and to our own internal policies and procedures. This review also sought to identify opportunities for continuous improvement to enhance the effectiveness, efficiency, and the value of the Internal Audit activity.

Scope

Internal Audit's last external assessment covered the period from October 1, 2011 to September 30, 2016. The last self-assessment review examined internal audit work performed for the period from October, 2016 to February, 2018. This self-assessment review examined internal audit work performed since the last self-assessment for the period from March, 2018 through December, 2019.

Methodology

The assessment was based on the IIA's IPPF *Standard 1311*, Internal Assessments. We used methodology described in the IIA's Quality Assessment Manual for the Internal Audit Activity - 2017 IPPF Aligned (Manual).

The self-assessor compiled and prepared information consistent with the methodology established in the Manual. This information included completed and detailed planning guides, all supporting documentation, evaluation summaries, documentation of all conclusions and observations, and the self-assessment report.

This assessment tested compliance with the *Standards*, the Code of Ethics, Internal Audit policies, procedures, and practices to the extent necessary for this assessment. The procedures described below were utilized to conduct this self-assessment:

- The Chief Audit Executive (CAE) completed a questionnaire and other relevant quality assurance information addressing Internal Audit Governance, Internal Audit Staff, Internal Audit Management, and Internal Audit Process using materials developed by the IIA.

- Surveys completed by representatives of the Audit Advisory Committee, Executive Leadership and Operating Management, the School Board Internal Auditor, and Internal Audit staff were reviewed and used in the self-assessment.
- The Internal Audit Procedures Manual revised February 2018, Internal Audit Charter, Audit Committee Charter, reporting relationships, and communications processes with executive management, the Audit committee, and the Board were reviewed.
- Work papers, audit reports, and follow-up activities were reviewed and tested to verify conformity to the *Standards*.
- The objectivity of the work performed was reviewed to determine the independence of the Division of Internal Audit.
- The Internal Audit Department staff's knowledge, skills, abilities, performance evaluation process, and training were evaluated by examining the unit's work and administrative records.
- The scope and performance of planned and completed audit work was evaluated.
- The processes of communicating audit results and audit recommendation follow-up were reviewed.
- Appendices D-1 Internal Audit Governance, D-2 Internal Audit Staff, D-3 Internal Audit Management, and D-4 Internal Audit Process from the Manual were completed by the self-assessor and used in developing the overall opinion.
- Determined conformity to each of the *Standards* and then rolled those determinations into an overall conclusion.

In accordance with the Manual, evaluation and conformance with *Standards* and Code of Ethics was determined using the following categories and rating methodology:

Generally Conforms means the assessor has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the Code of Ethics in all material respects.

Partially Conforms means the assessor has concluded that the activity is making good faith efforts to comply with the requirements of the individual *Standards* or element of the Code of Ethics, section, or major category, but has fallen short of achieving some of their major objectives.

Does not Conform means the assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the Code of Ethics, section, or major category.

Opportunities for Continuous Improvement enhance the efficiency or effectiveness of Internal Audit's processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of

Ethics. They may also be operational ideas or industry better practice based on the experiences obtained while working with other internal audit activities.

Successful Internal Audit Practices indicates where Internal Audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these items is intended to provide organizations with a view on things Internal Audit is doing in a leading practice manner when compared to other internal audit activities.

OPINION:

Based on the work outlined above, the Internal Audit Department of OCPS generally conforms with the Standards, and the Code of Ethics.

The environment in which Internal Audit operates is well structured and progressive, the *Standards* are understood, the Code of Ethics is being applied and management endeavors to provide useful audit tools and implement appropriate practices. The comments and recommendations that follow are intended to build on this foundation and enhance the department's effectiveness and efficiency and allow the internal audit activity to build upon the value it already brings to OCPS.

SELF-ASSESSMENT OBSERVATIONS AND COMMENTS:

The remainder of this report includes the survey results, successful internal audit practices, quality assessment for each major area of professional guidance, and recommended actions as opportunities for continuous improvement. Presented on the following pages are the results of conformity, by assessment area.

Survey Results

The self-assessment included responses (strongly agree, agree, disagree, strongly disagree, don't know) from a survey of executive leadership, operating management, and the Chief Audit Executive (CAE). Six responses were received from 12 survey requests. The CAE's responses were compared and matched to the other survey results to assess the opinion of the Internal Audit function from the perception of executive leadership and operating management regarding the Internal Audit activity's objectives, possible opportunities for improvement, and areas of successful practice. Executive leadership and operating management responses were favorable towards the Internal Audit division evaluation. Most of the survey responses from executive leadership and operating management were in between "strongly agree" and "agree" which were aligned with the CAE's responses. Select questions from the survey, their responses, and explanation charts are below:

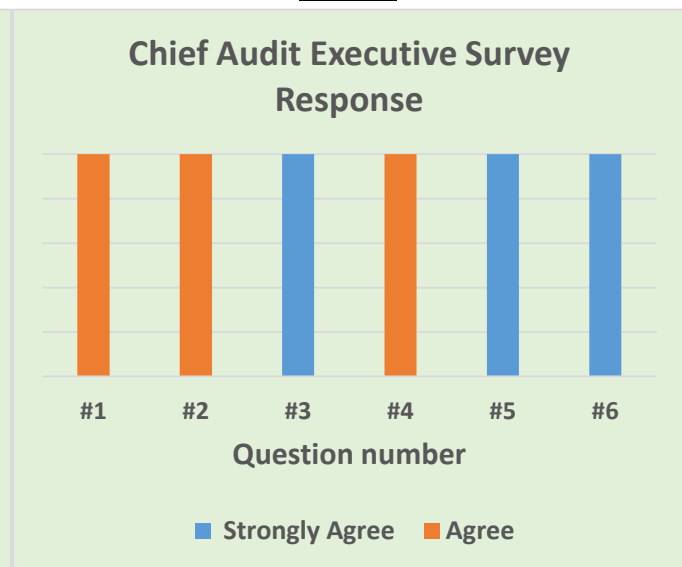
Questions:

- #1. *The internal audit activity is perceived as adding value and helping our organization accomplish its objectives.*
- #2. *Internal audit activity staff exhibits effective problem-identification and solution skills.*
- #3. *The internal audit activity management effectively promotes appropriate ethics and values within our organization.*
- #4. *The internal audit activity management adequately assesses the effectiveness of risk management processes employed by management to achieve objectives.*
- #5. *The internal audit activity management competently assesses the adequacy and effectiveness of our organization's system of internal controls.*
- #6. *The internal audit activity demonstrates sufficient knowledge of fraud to identify "red flags," indicating possible fraud when planning its audit engagements.*

Chart 1



Chart 2



One of the questions of survey was: *What would you describe as areas of strength for the internal audit activity?* Responses were:

- Team is transparent, communicates timelines and keeps management abreast of progress and findings. Available and willing to assist whenever needed.
- The audit team is very thorough in their work.
- Knowledge.
- Looking for risks and thoroughly assessing them for improvement opportunities.

- Enterprise Risk Management Process is strong and management is actively involved in the process. This should definitely continue and continue to assess against annual risk assessment and keep internal audit staff involved in the process.

One of the questions of survey was: *How might the internal audit activity better add value to your organization?* Responses were:

- Finding inherent weaknesses in our processes and practices. This will help us refine those things to ensure better more productive, positive results for the organization.

Additional comments were:

- The team is always professional and wanting to be perceived as an asset and value to all departments of the organization.
- The School Board Internal Auditor does a good job ensuring the internal audit function of the district protects taxpayer assets and builds on the public trust.

Successful Internal Audit Practices

There are several positive aspects about the OCPS Internal Audit. Some of the notable positive aspects are below:

- Conformance to the *Standards*
- Effective communication and reporting process
- Organizational independence
- Effective entity-wide risk assessment process
- Risk-based Annual Audit Plan
- Establishment of audit methodologies under policies and procedures
- Experienced and knowledgeable staff with certifications
- Biweekly Internal Audit staff meetings
- Supports staff's audit management software
- Utilizing data analytics software for analysis and evaluation
- Effective Internal/External Quality Assurance Assessment programs
- Maintains OCPS Internal Audit website
- Developed Internal Control Program brochure
- Audit report won a Knighton award from ALGA

IIA's Attribute Standards Conformity

<i>Standards Observation</i>	Conformity	Opportunities for Continuous Improvement Based on Implementation Guides and Industry Better Practices	Internal Audit Response
<p>1000 – Purpose, Authority, and Responsibility <i>The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</i></p>	Generally Conforms	None	N/A
<p>1100 – Independence and Objectivity <i>The internal audit activity must be independent, and internal auditors must be objective in performing their work.</i></p>	Generally Conforms	None	N/A
<p>1200 – Proficiency and Due Professional Care <i>Engagements must be performed with proficiency and due professional care.</i></p>	Generally Conforms	None	N/A
<p>1300 – Quality Assurance and Improvement Program <i>The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</i></p>	Generally Conforms	None	N/A

IIA's Performance Standards Conformity

Standards Observation	Conformity	Opportunities for Continuous Improvement Based on Implementation Guides and Industry Better Practices	Internal Audit Response
2000 – Managing the Internal Audit Activity <i>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</i>	Generally Conforms	None	N/A
2100 – Nature of Work <i>The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.</i>	Generally Conforms	None	N/A
2200 – Engagement Planning <i>Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.</i>	Generally Conforms	None	N/A
2300 – Performing the Engagement <i>Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</i> a) Some selected engagements' work papers did not include headings, initials, source and purpose. b) Some Engagement Management Checklist comments sections were left blank and some work papers were not uploaded to the audit management system. c) One selected engagements' recommendations/findings did not include documentation of the condition, criteria, cause and effect.	Generally Conforms	1) Continue to ensure work papers include headings, audit period, source, purpose, date, auditor's initials, final reviewer's initials on each work paper. 2) Continue to ensure Engagement checklists are completed and work papers are uploaded to the audit management system as evidence of the work done. 3) Continue to ensure attributes of recommendations such as condition, criteria, effect, cause, and recommendation are included in work papers.	We agree with these recommendations and will take steps to reinforce them with the Internal Audit team. It is worth comment that there were very few instances noted by the assessor and the nature of these oversights does not impact the quality of our work or our conformance with the <i>Standards</i> .
2400 – Communicating Results <i>Internal auditors must communicate the results of engagements</i>	Generally Conforms	None	N/A

<p>2500 – Monitoring Progress <i>The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</i></p>	<p>Generally Conforms</p>	<p>None</p>	<p>N/A</p>
<p>2600 – Communicating the Acceptance of Risks <i>When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</i></p>	<p>Generally Conforms</p>	<p>None</p>	<p>N/A</p>

IIA’s Code of Ethics Conformity

The purpose of The IIA’s Code of Ethics is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about governance, risk management, and control. The IIA’s Code of Ethics extends beyond the Definition of Internal Auditing to include two essential components:

- *Principles* that are relevant to the profession and practice of internal auditing.
- *Rules of Conduct* that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors. Internal Auditors are expected to apply and uphold the principles.

Principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct:

Rules of Conduct describes above principles in greater detail with the behavioral norms expected of internal auditors. The Rules of Conduct are an aid to interpreting the principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Internal Audit Department generally conforms to the Code of Ethics which includes the two essential components - Principles and Rules of Conduct.

I would like to thank OCPS Executive Leadership and Operating Management team, School Board Internal Auditor, and Internal Audit staff for their responses to the survey and for their cooperation during this self-assessment quality review.