

**INTERNAL AUDITOR
SELF-ASSESSMENT**

VALENCIA

Internal Auditor's Periodic Self-Assessment Compliance and Auditing Department June 2013

Background

According to *Standard 1300 – Quality Assurance and Improvement Program (QAIP) of the International Standards for the Professional Practice of Internal Auditing*, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing, the International Standards for the Professional Practice of Internal Auditing, and an evaluation of whether internal auditors apply the Code of Ethics (Appendix A). The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The QAIP must include both internal and external assessments. Internal assessments must include ongoing monitoring of the performance of the internal audit activity and a periodic self-assessment to evaluate the conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

This review concentrates on the internal assessment, specifically the periodic self-assessment, as approved by the Board in the FY2013 Internal Audit Plan.

Scope

The periodic self-assessment focused on evaluating:

- Conformance with the internal audit charter, The IIA's Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
- The quality of the audit work, including adherence to the internal audit methodology for selected engagements.
- The quality of supervision.
- The infrastructure, including the policies and procedures, supporting the internal audit activity.
- The ways the internal audit function adds value to the organization.
- The achievement of performance standards/indicators.

This periodic self-assessment included a review of the internal audit charter and internal audit procedures, the department's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of internal audit activity's working papers and reports.

Conclusion

Using the ratings provided by the Institute of Internal Auditors, there are three possible rating categories: Generally Conforms, Partially Conforms, and Does Not Conform.

Conformance ratings are defined as follows:

- **Generally Conforms** – the assessor has concluded for individual standards that the internal audit activity complies with the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- **Partially Conforms** – the assessor has concluded for individual standards that the internal audit activity is making good faith efforts to comply with the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- **Does not Conform** – the assessor has concluded for individual standards that the internal audit 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 standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct).

Based on the documentation reviewed and practices in place during the time of the review, it is the opinion of the Internal Auditor, that the internal audit activity Partially Conforms to the *Standards*. The main cause attributed to this rating is the absence of a comprehensive Quality Assurance and Improvement Program within the internal audit activity. This program includes ongoing monitoring, a periodic self-assessment, and an external assessment. The Evaluation Summary of each *Standard* is provided in Appendix B.

Opportunities for improvements are presented in the next section that will aid the Compliance and Auditing Department in achieving general conformance with the IIA's Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

Improvement Opportunities

- 1) Ongoing monitoring activities should be incorporated into daily operations of the internal audit activity. Ongoing monitoring provides assurance that the processes in place are working effectively to ensure quality is delivered on an engagement-by-engagement basis. It will be primarily achieved through continuous monitoring activities including engagement planning, standard working practices, working paper procedures

and signoffs, and report reviews. The results of ongoing monitoring must be communicated at least annually to senior management and the Board (*Standard 1310 – Requirements of the QAIP; Standard 1311 – Internal Assessment; Standard 1320 – Reporting on the QAIP*).

- 2) An external assessment must be performed (minimal every five years) in order to establish a complete QAIP. The internal auditor will consult with administration regarding the contracting of such services within the upcoming fiscal year. The results of the external assessment must be communicated to senior management and the Board (*Standard 1310 – Requirements of the QAIP; Standard 1312 – External Assessment; Standard 1320 – Reporting on the QAIP*).
- 3) The internal auditor should have a sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform required work. The internal auditor will obtain specific training in this area. Co-sourcing IT experts from other areas of the College to assist with identifying technology risks and controls will also be considered (*Standard 1210 – Proficiency*).
- 4) Supervision of engagements, as required by the *Standards*, is nearly impossible for the internal audit activity at Valencia to perform due to a staff of one. However, templates will be created and used to ensure the required information, documentation, and references prior to the engagement commencing, during the engagement and post-engagement is consistently maintained. The Institute of Internal Auditors will also be consulted to provide guidance on ways of achieving conformance to this Standard given the staffing size of the internal audit activity (*Standard 2340 – Engagement Supervision*).

Appendix A – Code of Ethics

CODE OF ETHICS

Principles

Internal auditors are expected to apply and uphold the following 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

1. Integrity
Internal auditors:
 - 1.1. Shall perform their work with honesty, diligence, and responsibility.
 - 1.2. Shall observe the law and make disclosures expected by the law and the profession.
 - 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
 - 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.
2. Objectivity
Internal auditors:
 - 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
 - 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
 - 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Appendix B – Evaluation Summary

Periodic Self- Assessment

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary—Overall Evaluation	GC	PC	DNC
OVERALL EVALUATION		√	

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	√		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	√		
1100	Independence and Objectivity	√		
1110	Organizational Independence	√		
1111	Direct Interaction with the Board	√		
1120	Individual Objectivity	√		
1130	Impairment to Independence or Objectivity	√		
1200	Proficiency and Due Professional Care		√	
1210	Proficiency		√	

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1220	Due Professional Care	√		
1230	Continuing Professional Development	√		
1300	Quality Assurance and Improvement Program		√	
1310	Requirements of the Quality Assurance and Improvement Program		√	
1311	Internal Assessments		√	
1312	External Assessments			√
1320	Reporting on the Quality Assurance and Improvement Program		√	
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	√		
1322	Disclosure of Nonconformance	√		
2000	Managing the Internal Audit Activity	√		
2010	Planning	√		
2020	Communication and Approval	√		
2030	Resource Management	√		
2040	Policies and Procedures	√		
2050	Coordination	√		
2060	Reporting to Senior Management and the Board	√		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	√		
2100	Nature of Work	√		
2110	Governance	√		

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
2120	Risk Management	√		
2130	Control	√		
2200	Engagement Planning	√		
2201	Planning Considerations	√		
2210	Engagement Objectives	√		
2220	Engagement Scope	√		
2230	Engagement Resource Allocation	√		
2240	Engagement Work Program	√		
2300	Performing the Engagement		√	
2310	Identifying Information	√		
2320	Analysis and Evaluation	√		
2330	Documenting Information	√		
2340	Engagement Supervision			√
2400	Communicating Results	√		
2410	Criteria for Communicating	√		
2420	Quality of Communications	√		
2421	Errors and Omissions	√		
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	√		

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
2431	Engagement Disclosure of Nonconformance	√		
2440	Disseminating Results	√		
2450	Overall Opinions	√		
2500	Monitoring Progress	√		
2600	Communicating the Acceptance of Risks	√		
	The IIA's Code of Ethics	√		