The Austin Chapter Research Committee

Karin L. Hill, CIA, CGAP, CRMA, MBA, Chair
DeQuincy L. Adamson, CGAP
Ann Contella, CIA, CISA, CGAP
Cynthia G. Fish, CIA, CGAP
Mike Garner, CIA, CFE, MS-QSM
Steve Goodson, CIA, CISA, CCSA, CGAP, CLEA, CRMA
David J. MacCabe, CIA, CGAP, CRMA, MPA
# Table of Contents

Executive Summary ................................................................................................................1

Introduction ........................................................................................................................2

Literature Review ................................................................................................................4
  Evolution of IIA Guidance on Quality .............................................................................5
  *Internal Auditor* Articles and Other IIA Publications on Quality Assurance .............6
  Other Articles on Quality Assurance .............................................................................9
  Recent and Current Developments .............................................................................9

Research Methodology ........................................................................................................11

Respondent Demographics ...............................................................................................12
  Number of Staff Assigned to the Internal Audit Department ......................................12
  Industry ......................................................................................................................12
  Leadership Structure ....................................................................................................13

Survey Results ....................................................................................................................14
  Conducting Internal Quality Assessments ..................................................................14
  Using the Results of Internal Quality Assessments ....................................................19

Case Study ........................................................................................................................24

Conclusions .......................................................................................................................28

Acknowledgments .............................................................................................................30

Selected Bibliography .......................................................................................................31

Appendices:
  Appendix A – Quality Assurance and Improvement Program Framework ...............35
  Appendix B – Annual Self-Assessment Review .............................................................41
  Appendix C – Self-Assessment Report .........................................................................53
  Appendix D – Internal Assessment and Business Plan .................................................60
  Appendix E – Survey Tool ............................................................................................83
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Executive Summary

Quality is never an accident; it is always the result of high intention, sincere effort, intelligent direction and skillful execution; it represents the wise choice of many alternatives.

WILLIAM A. FOSTER, quoted in Igniting the Spirit at Work: Daily Reflections

A quality assurance and improvement program, as defined by The Institute of Internal Auditor’s (IIA) International Standards for the Practice of Internal Auditing, Standard 1300 includes a combination of internal and external quality assessments. Internal assessments include a combination of ongoing monitoring of performance criteria and periodic reviews against the standards and external quality assessments are to be conducted at least once every five years.

This research paper identifies activities and practices of internal audit departments related to general compliance with Standard 1300 with more focused and specific information on internal assessments (Standard 1311). Internal assessments include the use of a variety of evaluation tools to rate current internal audit performance in areas of compliance with audit standards, requirements, policies, and procedures; production efficiency and quality; fulfillment of expectations of the organization’s board, management, and audit staff; and the value provided to the organization.

The information and related support provided throughout each section of this research paper supports the conclusion that the most successful internal assessments provide significant measurable, accountable, and feasible improvements to internal audit processes that can be reported and tracked for implementation, utilization, and results.

The results identify common and best practices in conducting and resulting from conducting internal quality assessments. Using the information and examples provided, internal audit departments can adapt a process that is effective for their organization and meet the Standards.
Introduction

The practice of internal auditing is expected to add value to an organization. Value is demonstrated to management, the board, and audit customers by conforming to the IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards)* and implementing the profession’s best practices. Quality is a characteristic of adding value through meeting stakeholder needs and expectations, and is a key requirement of the *Standards*.

The IIA’s Standard 1300, Quality Assurance and Improvement Program states, “The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.” Standard 1311, Internal Assessments, requires that internal assessments include:

- Ongoing monitoring of the performance; and
- Periodic reviews performed by someone with sufficient knowledge of internal audit practices.

Chief Audit Executives (CAEs) can ensure that internal audit activities meet quality goals through the implementation of a quality assurance and improvement program (QAIP). Three traits common to effective QAIPs are:

- the internal audit function has nurtured support from senior management and the audit committee;
- a dedicated staff that performs continuous monitoring and routine self-assessments of their audit processes in preparation for external assessments required by the *Standards*; and
- audit tools used to leverage internal audit activities to promote consistency and accessibility, and to secure sensitive information.

The IIA interprets the Standard as follows: “A *quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*”
Although quality is a key requirement of the Standards for all audit activities, internal audit functions are very diverse in their size, available resources, and the organization’s complexity. To support these diverse audit shops, the IIA developed five levels of quality, with the Path to Quality Model, designed to gauge the individual internal audit function’s quality capability target.

Many internal audit departments target level three – conforming, which indicates that the function generally conforms to Standards, obtains an external assessment as required, and demonstrates continuous improvement in their activities. Levels one and two, beginning and emerging respectively, are usually associated with new audit functions that are building their quality assurance programs, audit departments that have not had an external assessment performed, or the external assessment evaluated that the department did not conform to the Standards. In contrast, levels four and five, leveraging and leading, represent a well-seasoned internal audit function that has rated “fully conforms” through an external assessment and has implemented higher levels of quality controls to add additional value to their organizations.

While QAIPs are included at every level of the Path to Quality Model, the complexity of the program evolves as internal audit functions mature to beyond conformance. At the very least, a QAIP should include the following internal control processes:

- Involvement with the organization and a clear understanding of responsibilities;
- Annual risk assessment and ongoing monitoring of organizational activities; and,
- Departmental performance controls and milestones to ensure quality of internal audits performed.

Investing resources and time for ongoing monitoring to optimize internal audit activities provides a benefit through enhanced risk assessment processes, an improved control environment, strengthened relationships with management and regulators, and ultimately greater efficiency. The IIA interprets ongoing monitoring as “an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.”

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Internal Audit functions with a QAIP at levels four and five implement a combination of best practices; some of which include:

- The CAE is actively involved in the organization to strengthen governance, risk management, and internal control processes.
- The CAE has earned the confidence of clients, the organization’s stakeholders, and regulators.
- The CAE has earned the respect of the internal audit staff through open discussions for continuous improvement of the audit function, commitment to continuing education and training of the internal audit staff, and encouraging involvement in leadership activities.
- The internal audit staff collectively possesses skills and certifications relevant to the audit environment, including IT auditing expertise.
- A comprehensive charter clearly identifies the roles and responsibilities of the internal audit staff and annual risk assessment processes are linked to the organization’s universe with a framework that involves continuous monitoring for focused audit planning and efficiency.
- Controls are in place to ensure that internal audit reports are clear and concise, timely, and focused on risk with procedures to follow up on management action plans.
- Technology based audit tools are used to monitor performance milestones set by internal audit to ensure a highly productive staff, and to provide for consistency, accessibility, and security of audit working papers.
- A dedicated staff monitors the performance outcome measures to address inefficiencies or control weaknesses and the results are reported to the governing body at least annually.

**Literature Review**

Providing an assurance of quality for products and services has been a long-held commitment for internal audit professionals. The Institute of Internal Auditors (IIA) recognized the importance of quality assurance in the initial *Standards for the Professional Practice of Internal Auditing* adopted in 1978.\(^2\)

The former Standard 560 provided “The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal

auditing department.”

This standard included three elements: supervision, internal reviews, and external reviews. These three elements remain important ingredients for an effective Quality Assurance and Improvement Program (QAIP) some 34 years later.

**Evolution of IIA Guidance on Quality**

The IIA has updated advice to practitioners over the years via *Standards* additions and revisions, practice advisories, publications, examples, tools, and techniques.

The initial *Standards* required external Quality Assurance Reviews (QARs) every three years corresponding with the guidance promulgated by the United States Government Accountability Office (formerly the United States General Accounting Office) over many years. The IIA determined that a five-year external review schedule was more appropriate and has been the requirement since 2002.

Major revisions to the *Standards* have occurred periodically over the years, most significantly in 1999, 2002, 2006, 2009, and 2011.

A special committee known as the Guidance Task Force reviewed IIA standards and guidance and in 1999 concluded that a more robust definition of internal auditing was warranted. The new *Professional Practices Framework* was adopted and emphasized five major purposes including the need to “require a quality assurance mechanism to ensure compliance with the *Standards*.”

*Standards* revisions in 2002 and 2006 gave greater credence to the need to more fully implement the requirements of Standard 1300 pertaining to internal and external assessments of internal audit functions. The mandatory nature of these revisions was illustrated by the change of the word “should” to “must” over 140 times throughout the *Standards*.

Over the years additional supporting standards in the 1300 series were implemented to reflect the following configuration:

- Standard 1300 – Quality Assurance and Improvement Program
- Standard 1310 – Requirements of the Quality Assurance and Improvement Program
- Standard 1311 – Internal Assessments

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3 Ibid.
• Standard 1312 – External Assessments
• Standard 1320 – Reporting on the Quality Assurance and Improvement Program
• Standard 1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
• Standard 1322 – Disclosure of Nonconformance.

Anderson (1983)⁶ published one of the earliest guides to conducting a quality review program and suggested there are four stages in the process: preliminary preparation for a review, preparation for field work, performance of field work, and reporting.

The IIA recognized the need for additional guidance on this topic in 1984 with the publication of Statement on Internal Auditing Standards Number 4 on quality assurance.⁷ This pronouncement provided practitioners with guidance on a three prong approach: supervisory reviews, internal reviews, and external reviews. The statement further noted an important value of external reviews was "to provide independent assurance of quality to senior management, the audit committee, and others such as the independent outside auditors who rely on the work of the internal auditing department.”

Nelson (1984) discussed the progress of external quality assessment services provided by The IIA and planning efforts for the future.⁸ This IIA global headquarters service to the internal auditing profession has grown substantially from a handful of IIA-produced QARs in the early years to 96 QAR projects conducted in calendar year 2011.⁹

The IIA developed and issued the Quality Assessment Manual (now in its sixth edition) providing more detailed information such as methodology, tools, interview guides, report samples, and other information vital to preparing for and conducting external QARs.¹⁰ A seventh edition is targeted for release later this year.

Internal Auditor Articles and Other IIA Publications on Quality Assurance

Over the past 20 years, the Internal Auditor journal has published a number of relevant articles on quality assurance. Collectively the information has served to advance the profession and encourage greater understanding of and conformance with professional standards.

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⁶ Anderson, Quality Assurance and Internal Auditing, 35-37.
⁷ IIA, Statement on Internal Auditing Standards Number 4.
⁸ Nelson, “Quality Assurance Review Two Years Later.”
⁹ Information provided by IIA Quality Office, February 13, 2012.
Fonorow (1989) held that external peer reviews are "an excellent tool for keeping the internal audit staff up-to-date on new auditing approaches and new areas for audit examinations." He suggested that this could be particularly useful as an evaluation benchmark to assess future needs for new audit directors and for board audit committees.

Ratliff and Wallace (1988) stated that many audit departments are not evaluated externally due to a frequent feeling by executive management and board members that they, rather than outsiders are in the best position to assess internal audit performance. Sawyer (1981) believed the most independent evaluation comes from professional peer review efforts. He explained that “The reviews . . . seek to determine whether the quality control policies and procedures are adequately documented, communicated to the staff auditors, and effectively complied with so as to provide reasonable assurance that the internal auditing department is meeting the standards of the profession . . .”

Peters (1992) discussed the “total quality management” (TQM) concept popularized by W. Edwards Deming based on a management and staff commitment to continuous improvement in an organization’s business processes, products, and services. Peters described a “quality loop” in the audit process that emphasized marketing, product design, process planning, production, and packaging concepts. He also emphasized the need for regular “audits” of the internal audit operation through the use of internal and external sources including The IIA’s Quality Assurance and Review Service (QARS).

Conner (1992) proposed incorporating key Total Quality Management (TQM) concepts of customer focus, continuous process improvement, and teamwork into the internal audit function. As a result, the Florida Power Corporation improved its audit process through the use of an “Audit Customer Effectiveness Questionnaire” – now a staple ingredient of many internal and external quality assessment reviews.

Johnston and Kirsh (1996) benchmarked the TRW Internal Audit Department QAR report against 36 other organizations that had used IIA’s QARS. The authors analyzed and summarized the more significant written comments for each of the five general

11 Fonorow, 8.
13 Sawyer, The Practice of Modern Internal Auditing, 669.
14 Peters, “The Quality Revolution.”
15 Conner, “IA + TQM = AS.”
16 Johnston and Kirsh, “Benchmarking Peer Reviews.”
standards (then Standards 100 through 500). TRW’s goal was to adhere more fully to the IIA Standards.

Zhang (1999) discussed the need for the audit charter to “serve as a tool for keeping internal auditing relevant and up-to-date or it can be an anchor slowing down processes and programs.”¹⁷ He recommended periodic reviews of the charter including several key points including executive management commitment, the scope of activities, authorization for records access, and risk-based auditing. The internal audit charter continues to be a topic for improvement opportunities in many internal and external QAR reports today.

Fabrizius and Serafini (2004) described the “empowering and surprisingly painless” QAR review process experienced at the Bon Secours Health System.¹⁸ The authors provided an action plan, timeline, and some helpful tips for audit shops in planning for a successful external review. Among their secrets was that “Preparation, communication, and a positive attitude are the secrets for an enriching QA.”

Baker (2006) noted that many internal audit shops were preparing for their first external quality assessment in order to comply with the mandatory nature of the requirement stressed in the 2002 revision to the Standards.¹⁹ He provided suggestions and techniques from several internal audit practitioners on ways to prepare for the QAR and keep up with best practices.

Armanas (2007) observed that small internal audit shops have found ways to ensure a commitment to quality audit work despite often having difficult resource limitations.

He notes, “With the right approach, small departments can use QAs to help provide a service that is more closely aligned to the expectations of clients, senior management, and the board, without breaking the bank or stretching the department too thin.”²⁰

Manchanda and McDonald (2011) discussed a government agency’s preparations for reviews by the Comptroller General of Canada that incorporated the Canadian government’s Policy on Internal Audit in addition to the IIA Standards.²¹ The authors provided valuable “lessons learned” in several areas such as experience and communications, external validation vs. self-assessment, staff survey insight, and senior management interviews.

¹⁷ Zhang, “A Check-up for Your Charter.”
¹⁸ Fabrizius, “Learning to Love the Scrutiny.”
¹⁹ Baker, “A Check-up for the Audit Shop.”
²⁰ Armanas, “Quality Assessments for Small Shops.”
²¹ Manchanda and McDonald, “External Assessments as Tactical Tools.”
Other Articles on Quality Assurance

Some auditing publications have also profiled the need for internal and external quality reviews as integral parts of an effective audit process. Among these publications are the *Local Government Auditing Quarterly* and *The Internal Auditor Compass*.

Taylor (2009) provided members of the Association of Local Government Auditors (ALGA) with clarification on recurring peer review questions and concerns in areas such as monitoring quality, continuing professional education, and the timing of peer reviews.\(^{22}\) ALGA has separate Yellow Book and Red Book Peer Review Guides that correspond with the requirements of the *Government Auditing Standards* and the *IIA Standards* respectively.\(^{23}\) Stokes (2011) reports that ALGA volunteers have completed over 300 external peer reviews since the program was initiated in 1991.\(^{24}\)

Harmon (2010) suggested that practitioners preparing for peer reviews should consider three areas that are often problematical: audit policies and procedures, consistency in use of engagement forms and formats, and requests for non-audit or consulting services.\(^{25}\)

In 2010 a panel of four distinguished Belgium internal audit professionals addressed seven key questions pertaining to the QAR process.\(^{26}\) They discussed a number of typical questions and concerns from audit practitioners and concluded there were three major reasons for conducting a QAS review as follows:

“A QAS review is (1) a label of quality, assessed by an independent party,

(2) that increases the visibility of the internal audit department and (3) gives assurance to the stakeholders that the internal audit department is managed efficiently, effectively and based on the international standards for the profession.”\(^{27}\)

Recent and Current Developments

The IIA’s 2010 *Global Internal Audit Survey* provided interesting perspectives on the implementation status of Standard 1300 throughout the internal auditing world.\(^{28}\)

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\(^{22}\) Taylor, “Common Compliance Concerns and Confusion.”


\(^{24}\) Stokes, “Little-Known Facts About ALGA’s Peer Review Services.”

\(^{25}\) Harmon, “Peer Review Corner: Are There Risks to Consider.”


\(^{27}\) Ibid.

\(^{28}\) *Core Competencies for Today’s Internal Auditor*, 35-38.
survey results pertaining to core competencies indicate additional progress is needed for many internal audit activities to conform to the requirements of Standard 1300:

- The percentage of internal audit activities with quality assurance and improvement programs increased from 2006 to 2010 from about 26% to only about 31%.
- Only 34.5% of respondents stated that their internal audit activity was subject to an external QAR within the prior 5-year period.
- Over 44% of internal audit service providers stated their internal audit processes were not subject to external QARs in line with Standard 1312.

Another report emanating from The IIA’s 2010 Global Internal Audit Survey presented 10 overarching imperatives for consideration by chief audit executives. Among these 10 action imperatives was the need to “view compliance with The IIA’s International Standards for the Professional Practice of Internal Auditing as mandatory, not optional.”

In this regard, the low level of compliance with Standard 1300, the Quality Assurance and Improvement Program (QAIP), was a particular concern. Slightly over 38% of respondents indicated full compliance with Standard 1300. This was the standard with the lowest level of full compliance. The report listed a number of reasons cited by chief audit executives for noncompliance but also stressed that “the role of the CAE includes overcoming challenges and bringing an internal audit activity into full compliance. By adopting this mindset, compliance with the Standards becomes a positive reflection on the professionalism of the internal audit activity as opposed to an act of noncompliance requiring explanation.”

Internal audit stakeholders were asked their perspectives regarding compliance with the Standards and 90% of respondents indicated that adherence to the Standards increased their confidence in internal audit.

On February 20, 2012 The IIA issued an exposure draft listing some proposed changes to the International Standards. Among the suggested changes is an increasing focus on the QAIP requirements. One significant change proposes to bring the self-assessment with independent validation (SAIV) process into the Standards and mandatory guidance

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30 Ibid.
31 A Call to Action: Stakeholders’ Perspectives on Internal Auditing, 15-16.
32 Announcement on The IIA web site: [http://www.theiia.org/recent-iia-news/?i=17360](http://www.theiia.org/recent-iia-news/?i=17360)
via a *Standards* Interpretation. Previously, the SAIV option for obtaining an external review was included as strongly recommended guidance in a Practice Advisory.\(^{33}\)

Also in February 2012 the IIA’s Professional Issues Committee provided practitioners with additional guidance on internal audit quality through a Practice Guide on QAIP.\(^{34}\) This guide provides information on key QAIP elements and provides suggestions on developing and implementing a QAIP as well as sample methodologies and a template for conducting internal quality assessments.

There is little doubt that conformance with the QAIP Standards will continue to be an object of ongoing interest and priority for internal audit professionals for the foreseeable future.

### Research Methodology

The Institute of Internal Auditors Austin Chapter Research Committee conducted a survey in December 2011 to obtain information on how internal audit functions conform to the IIA Performance Standard 1311 on Quality. The Committee received 76 responses to the survey, from six countries, of which 20 indicated they would be willing to participate in additional activities if needed.

The survey, administered on-line through Survey Monkey\(^6\), was a combination of 25 yes/no and open ended questions. The open ended questions were used primarily to gather additional information or clarification pertaining to answers indicating “other.” The survey summary indicates that not all of the respondents answered every question. Respondents had the option to identify their organizations on the last question, and to volunteer to provide examples of their internal assessments.

Additionally, a case study of the impact of internal assessments on external quality assessments performed at Texas state agencies was conducted and examples of internal assessments were collected based on respondent’s answers to the survey questions and willingness to share. Each example illustrates a different resulting product of the internal assessment process. These items are included as appendices at the end of this report.

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\(^{33}\) IIA Practice Advisory 1312-2: External Assessments- Self-assessment with Independent Validation.

\(^{34}\) IIA *Practice Guide: Quality Assurance and Improvement Program*. 

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**Respondent Demographics**

To help understand the perspectives of the respondents several demographic-related questions were asked. This assisted the research team in analyzing how factors such as department size and industry impacted practices related to quality assurance and process improvement.

**Number of Staff Assigned to the Internal Audit Department**

To allow for analysis and comparison based on the size of internal audit functions, respondents were asked how many staff were assigned to the department. Of the 68 respondents who answered this question, most reported having 20 or fewer staff, with almost half (43%) having between 1 and 5.

![Size of Internal Audit Department](image)

**Industry**

Of the 67 respondents who answered this question, 39 (58%) were employed with some level of government. The remaining respondents represented a good variety of industries, including non-profit, for profit, and college or university organizations. Those that selected “other” indicated financial institutions, utility, and political subdivisions of state government.
**Leadership Structure**

Of the 68 respondents who answered this question, more than half (56%) of them report under a governing board or commission with an audit committee and 17 percent under a board or commission without an audit committee.
Survey Results

Conducting Internal Quality Assessments

In addition to understanding the demographics of the respondents, the research team identified what activities were included in respondents’ efforts to meet Standard 1311 and whether or how they differed based on some of the demographic information collected. The survey opened by asking respondents whether they conduct internal assessments as defined in Standard 1311 of the International Standards for the Professional Practice of Internal Auditing. Of the 75 responses that were received to this question, almost three-quarters (72%) reported “yes” and about half of the others noted that it was “planned for the future.”

Review of the information based on the size of the audit department identified that while respondents from all but the largest category (> 50 staff) reported that they do not currently conduct internal quality assessments, with the most frequent of these reports being from the smallest departments (1 – 5 staff) and those with between 21 and 50 staff.
Analysis of responses to this question by industry identified that internal audit departments in government organizations were more likely to conduct internal quality assessments with 85 percent of these respondents reporting positively and 61 percent of respondents that selected for profit, non-profit, college/university, or “other” responding positively.

While the Standards establish the requirement to conduct internal assessments and the Practice Advisory breaks out processes and tools for ongoing internal assessments, as well as additional activities to consider for the required periodic assessments, the research team wanted to understand what types of activities respondents engaged in to conduct their assessments.

Of the 54 respondents that indicated they conduct internal quality assessments, review of working papers, report content and format, evaluation of conformance with the Standards, and client surveys were most often identified as activities included in the internal assessment followed closely by several other activities as illustrated in the chart below.
Respondents that indicated they either did not conduct internal assessments, or planned to conduct them in the future, identified many of the same activities as part of their quality assurance process. This demonstrates that while these activities provide insight into how well the audit function is meeting its objectives and complying with the Standards, they are common practices used by internal audit professionals in the day-to-day management of their responsibilities.
Another interest of the research team was to determine who was responsible for conducting the internal quality assessments. Of the 66 respondents that answered this question, 28 (42%) indicated that the CAE is the primary individual responsible for the assessment. Responses of “other” identified that several staff in audit departments are often involved in this process.
Further review of the responses to this question, based on the number of staff assigned to the internal audit department, identified that with the exception of the largest reported department (> 50 staff), as the reported size of the department increased, the responsibility for conducting the internal assessment shifted from the CAE to other staff in the department.

The *Standards* stop short of explicitly establishing the frequency of internal assessments by requiring “periodic” assessments; however, the Practice Advisory establishes that the results be reported to senior management and the board annually. When asked how often internal assessments are conducted, more than half (53%) of the 65 respondents who answered the question indicated annually, with most of the others responding equally that it is aligned with the external assessment cycle and “other.” Additional information provided by those who selected “other” predominantly indicated that assessments are conducted on an ongoing basis. Additionally, in response to where the results are reported, many respondents selected multiple options, with the top three being the CAE, senior management, and the board.
In addition to information directly related to the completion of internal assessments, the research team wanted to determine whether internal audit departments that complete internal quality assessments place more focus on staff development and performance evaluation than departments that do not. While the difference in response was small, the respondents who answered the question that complete internal quality assessments indicated that they hold performance improvement meetings with their staff periodically throughout the year or as needed; while those who do not conduct internal quality assessments have these meetings annually or as needed. However, there was no difference between the two groups of respondents when asked about how often training needs are evaluated or how they are documented.

**Using the Results of Internal Quality Assessments**

In addition to asking respondents about their practices in conducting internal assessments, the research team was interested in learning about the results of the assessments and how they are used in the operation and measurement of the internal audit department. While the majority (92%) of the 52 respondents who answered the question of whether the internal assessment has indicated non-conformance responded “no,” those that answered “yes” noted that the non-conformance related to external quality assessments, reporting, and information technology.
The survey did not inquire about how or whether the respondents made appropriate adaptations to their operations as a result of the internal assessments alone, however it did ask whether they adjust the activity’s operations bases on the results of performance measures and/or internal quality assessments. Of the respondents that complete an internal assessment, 80 percent indicated that the results were used to make appropriate improvements to their operations. All of the respondents that also identified areas of non-compliance with the Standards responded that results were used to improve operations.

In addition to being a universal practice to monitor progress and for early identification of needed changes, review of performance metrics is one of the tools listed in Practice Advisory 1311-1 to be included in ongoing assessments. The survey asked respondents to identify what metrics (listed in the chart below) have been developed to measure the internal audit activity. In addition to these activities, respondents reported several others; some of which include:

- Results of audit committee evaluation;
- Percent of audit actions/recommendations implemented;
- Percent of follow ups completed;
- Percent of reports issued within time requirements;
- Percent of audits where working papers were reviewed prior to the report being released; and
- The provision of periodic status reports to the audit committee.
The 54 respondents who indicated that they conduct internal quality assessments reported a combined 253 performance metrics to measure their internal audit activities. In contrast, the 21 respondents that do not currently conduct internal quality assessments reported a total of 44 metrics. This demonstrates that while many metrics are commonly used, departments that conduct internal quality assessments generally implement a more well-rounded battery of metrics to monitor activities and progress.

Of the 68 respondents who answered the question of whether their internal audit department had received an external quality assessment, those who complete internal quality assessments responded significantly more positive than those who have not implemented Standard 1311. If they had received an external quality review, respondents were also asked when the most recent review was completed. Without exception, those respondents noted an external review having been conducted within five years, as required by Standard 1312.
Further analysis identified the smaller internal audit departments (1 – 5 staff) as being more likely to not have received an external quality assessment, which is similar to the internal quality assessment responses. Respondents from government organizations reported a higher rate of compliance with the external quality assessment requirement; 87 percent of government respondents reported having received an external quality assessment and 75 percent of respondents from the other industries reported the same.

Finally, the research team wanted to get respondents’ perspectives on what they consider the most important value they receive from conducting internal quality assessments. The survey included several options for the respondents to choose, as well as “other” and space to add comments. “Improved internal audit processes” was by far the most selected response to this question. Respondents that selected “other” included gaining management and external oversight support and providing an overall measure of how the department is meeting requirements.
What is the most important value received from conducting Internal Quality Assessments?

- Improved internal audit processes
- Conformance with Standard 1311
- More consistency in approach by audit staff
- Other
- Training opportunities
Case Study

Impact of Internal Quality Assessments on Peer Reviews

The Texas State Agency Internal Audit Forum

Introduction

This case study focuses on the internal assessments and specifically their impact on the External Quality Assurance Program. In Texas the State Agency Internal Audit Forum (SAIAF) has developed a Peer Review Program that has a very strong self-assessment component. The need for a SAIAF External Quality Assurance (Peer Review) program was identified in 1994. At that time internal audit departments at State Agencies were generally contracting for a Peer Review to be conducted on their Internal Audit operations. Some of the smaller internal audit departments could not justify spending the funds needed to contract for this service. Therefore the SAIAF Small Internal Audit Shop Committee (soon to be known as the Peer Review Committee) developed a comprehensive Peer Review process that was approved by SAIAF and adopted for use by most SAIAF-member internal audit departments in 1995. Due in part to the time and resources that needed to be devoted to conducting a Peer Review, the SAIAF Peer Review Committee placed emphasis on a comprehensive and detailed self-assessment process.

SAIAF Self-Assessment Process

Although the components of the SAIAF Self-Assessment process have been expanded to include not only the International Standards for the Professional Practice of Internal Auditing (IIA Standards), but also The Government Auditing Standards (GAO Standards) and requirements of the Texas Internal Audit Act, updated with every update to the standards, and improved to develop requirements for additional structure, organization, support, and references/cross-references since 1995; the essential elements of the process remain the same. These elements of the self-assessment are included as part of the SAIAF Peer Review Process Manual and the procedures are reflected below in an excerpt from the self-assessment portion of that manual.

The following elements make up a comprehensive, acceptable self-assessment.

- Completion of a Master Peer Review Program, including comments and source references as needed to further explain items.
- Preparation of a 3-ring binder or reference file containing documents or copies referenced during completion of the Master Peer Review Program.
• Completion of a self-assessment using the Working Paper Review Tool for at least one set of working papers. The working papers selected for review should be from a representative engagement conducted during the prior 12 months. The working paper self-assessment items or questions should include references to the set of work papers.

• Preparation of a Self-assessment report containing the following information, at a minimum:
  o areas identified that need improvement;
  o plan and implementation date for each of the areas of improvement identified; and
  o a conclusion on compliance with the auditing standards.

Standards

Standard 1311 requires both ongoing internal assessments and periodic internal assessments. Ongoing internal assessments include work paper reviews, engagement supervision, actual vs. budgeted analysis (and other monitoring metrics), performance evaluations, and customer surveys. Periodic internal assessments are usually used to assess performance in accordance with the Standards and other external (Texas Internal Audit Act) and internal (policies, procedures, charter, etc.) requirements. Practice Advisory 1311-1 indicates that a periodic internal assessment performed within a short time before an external assessment can serve to facilitate and reduce the cost of the external assessment. This is the type of internal assessment that this case study addresses.

Experiences

Early Experiences - In 1995 when SAIAF first initiated using the comprehensive self-assessment process prior to conducting a peer review, it was found to be a great success and peer reviews were able to be conducted quickly and effectively. This was very encouraging to the SAIAF Peer Review Committee.

After these first few test cases were completed, the process was opened up to all SAIAF member agencies. The Peer Review Committee then started dealing with the many problems that arose during the peer review process. These problems included:

• complaints against the peer review team leader and members;
• complaints by peer review team leaders and members;
• forced removal of peer review team leaders and members;
• allegations against the peer review team of subterfuge, character assassination, being a tool of management, retaliation and revenge, trying to steal their job, etc.; and
• inquiries from the state agency’s management on whether they needed to terminate their internal auditor or internal audit staff.

The Peer Review Committee (committee) investigated and addressed most of these complaints. In addressing these complaints and allegations the committee took actions including: replacing peer review team leaders and/or members with members of the committee; assigning personnel to conduct dispute resolutions and make dispute resolution decisions; and meeting with state agency internal audit management, state agency management, and peer review leaders and team members to address, resolve, and close identified concerns.

Although the problems and complaints were diverse, the committee’s investigation found that in every case where a complaint was investigated, a self-assessment that met the SAIAF Peer Review requirements had not been completed. The reasons provided the committee included the following:

• was not told or aware that a self-assessment was required;
• did not have to complete a self-assessment when we contracted out for this service;
• the peer review team leader did not require a self-assessment;
• that is much more work and information than is needed to conduct a peer review;
• there is no need for the self-assessment we can get you what you need for the peer review when you need it.

When the committee better understood that the major cause of complaints and other problems that developed during the peer review process was significantly linked to an incomplete or substandard self-assessment, they took actions to address this issue through strong emphasis in the Peer Review Manual, Peer Review Training, and discussions with SAIAF membership.

Recent Experiences – After the SAIAF Peer Review Process was fully documented in a manual (emphasizing self-assessment requirements) and specific SAIAF Peer Review Process training (emphasizing self-assessment requirements and the needs and benefits of these requirements) was developed and provided, the SAIAF Peer Review Process matured very quickly and complaints and problems were significantly reduced in both volume and impact. Current self-assessments have started to include not only a
complete listing of areas that need improvement and the methods and timeframe that improvements will be implemented; but also include an independent internal assessment review of all work papers and a complete listing of best practices and the maturity levels at which they are currently functioning.

Conclusion

The impact of a comprehensive and well organized, documented, and referenced periodic internal assessment process is very significant and of great importance to a successful peer review process. Therefore, this process, at a minimum, needs to be emphasized in policies, procedures, training, performance, and evaluations.
Conclusions

The information included in each section of this research paper including introduction; literary review; recent and current developments; research paper methodology; survey results; examples provided by selected respondents; and the case study supports the conclusion that successful internal assessments provide measurable, accountable, and feasible improvements to internal audit processes that can be reported and tracked for implementation, utilization, and results.

Analysis of the survey results identified several points:

- Although overall the size of the internal audit department does not drive whether or not internal quality assessments are conducted, a fewer proportion of respondents from departments with between 1 – 5 and 21 – 50 reported conducting assessments.
- Many of the activities identified by respondents that conduct internal quality assessments are also performed by departments that do not meet Standard 1311 highlighting the activities as best practice for ensuring quality.
- Respondents identified CAEs as the individual that conducts the internal assessment; however, this shifts to either a staff member dedicated to quality assurance or audit managers/supervisors as the size of the department increases.
- While there were various responses, most indicated that internal assessments are conducted at least annually which provides for communicating the results to senior management and the board annually.
- Results of internal assessments are being used to address performance and non-compliance with Standards.
- A variety of performance metrics were reported as used. Whether a department conducts internal quality assessments does not drive what or whether metrics are used.
- Most internal audit departments that conduct internal quality assessments also report having a current external quality assessment.
- Respondents identified improved internal audit processes as the most important value from conducting internal quality assessments.

While several documents, reports, and books have been published about operating small audit departments, more assistance is needed in ensuring the tools and methodologies are available that require minimal resources and still meet the Standards.
These results identify common and best practices in conducting and resulting from conducting internal quality assessments. Using the information and examples provided, internal audit departments can adapt a process that is effective for their organization and meet the Standards.
Acknowledgements

The Austin Chapter Research Committee members express our appreciation to the Chief Audit Executives and representatives of all of the organizations who responded to our survey and shared their thoughts and ideas, with special thanks to:

Texas Adjutant General’s Department
Texas Commission on Environmental Quality
Texas Department of Public Safety
Texas Education Agency
Texas General Land Office
Texas Juvenile Justice Department
Texas Teachers’ Retirement System
Selected Bibliography


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__________. *Quality: Professionalism in Practice*. Located on the IIA web site:

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www.theiia.org/download.cfm?file=74520


Quality Assurance and Improvement Program (QAIP)
Fiscal Year 2011

Internal Audit Department

QAIP Components

1. QAIP Policy and Procedures
2. Audit Function Management
3. Internal Assessments
4. External Assessments
5. Audit Committee Reports
Quality Assurance and Improvement Program (QAIP)

Policy and Procedures

Policy:
Internal Audit will maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity and provides reasonable assurance of compliance with professional auditing standards and applicable legal and regulatory requirements. Specifically, the QAIP is comprised of the following components, a QAIP policy and related procedures; audit function management; internal and external assessments; and an annual overall QAIP status report to the Audit Committee.

Applicable Auditing Standards and Laws:
• IIA AS 1300 Section - Quality Assurance and Improvement Program and related practice advisories
• GAO Government Auditing Standard 3.50
• Internal Auditing Act 2102.007 (a) (5)

Procedure Examples:
Ongoing Supervision & Quality Control - The chief audit executive performs a documented review of all assurance and consulting projects and for all assurance projects, assigns a final quality control reviewer to follow an approved working paper review checklist with reviewer sign-offs.

Auditor Evaluations – The chief audit executive annually provides a documented comprehensive evaluation and ongoing coaching for each auditor that includes informal interim feedback and guidance during or after each assigned project.

Job Descriptions – The chief audit executive develops and maintains accurate job descriptions for each auditor. Well-defined job descriptions are a component of the annual auditor evaluation tool.

Performance Measures – The chief audit executive develops and monitors appropriate metrics to measure the performance of the audit activities. Internal audit performance measures are reviewed and revised annually.

Quality Assurance and Improvement Program (QAIP)

Audit Function Management

<table>
<thead>
<tr>
<th>Activity</th>
<th>Owner</th>
<th>Assigned To</th>
<th>Status</th>
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<td>Internal Audit Charter Review</td>
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<td>Current</td>
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<td>September 2012</td>
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<tr>
<td>Performance Measurement</td>
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<td>Ongoing</td>
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<td>Quarterly</td>
<td></td>
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<td>Risk-Based Annual Audit Plan</td>
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<td>Staff and Managers Meetings</td>
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<td>Annual Staff Evaluations</td>
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### Quality Assurance and Improvement Program (QAIP)

#### Audit Function Management (continued)

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### Quality Assurance and Improvement Program (QAIP)

#### Internal Assessments

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<td>Annual documented Internal Self-Assessment using the current State Agency Internal Audit Forum (SAIAF) Self-Assessment Program</td>
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<td>Independent survey of audit customers (management level) using the SAIAF audit customer survey tool as part of annual self-assessment</td>
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<td>Staff and Manager Meeting Discussions of Self-Assessment Results</td>
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<td>Pending</td>
<td>TBD</td>
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<td>Implement Internal Self-Assessment Recommendations</td>
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<tr>
<td>Track Internal Self-Assessment Recommendations and Report Implementation Status Quarterly to the Audit Committee</td>
<td></td>
<td></td>
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## Quality Assurance and Improvement Program (QAIP)

### External Assessments

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<td>Staff and Manager Meeting Discussions of External Assessment Results</td>
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<td>Implement External Peer Review Recommendations</td>
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<td>Track External Peer Review Recommendations and Report Implementation</td>
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### Audit Committee Reports

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<td>Internal Audit Performance Measures</td>
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<td>QAIP Results</td>
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<td>Internal Audit Annual Report</td>
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<td></td>
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<td>Reported Annually</td>
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<td>Annual Audit Plan (Department Budget, Resources, Independence, and Objectivity)</td>
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<td>Annual Audit Plan Status Report</td>
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<td>Internal Audit Charter</td>
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# Quality Assurance and Improvement Program (QAIP)

*Internal Audit and Compliance Staff Members*

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<thead>
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# Quality Assurance and Improvement Program (QAIP)

*Internal Audit Organizational Chart*
Appendix B

Annual Self-Assessment Review
EXECUTIVE SUMMARY

We have completed the annual TRS Internal Audit Self-Assessment Review, as included in the Internal Audit Quality Assurance Improvement Plan (QAIP). The project objective, scope, methodology, and conclusion are in Appendix A on page 5.

This project is an assessment of TRS Internal Audit’s policies, procedures, and processes to validate compliance with applicable professional internal auditing standards, code of ethics, and Texas state law. The review is also used as a method to identify opportunities for continuous improvement within Internal Audit.

Based on the self-assessment results, we believe the TRS Internal Audit function complies with The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), the U.S. Government Accountability Office’s Government Auditing Standards, the IIA Code of Ethics, and the Texas Internal Auditing Act.

As part of our commitment to continuous improvement, we identified opportunities to improve our processes and procedures to enhance compliance with statutory and professional internal auditing requirements. During the self-assessment, we also noted best practices recently implemented or improved by the Internal Audit department during fiscal year 2011.

Detailed information about the identified opportunities for improvement and best practices is included in Appendix B on pages 6 - 8.
Background

The Chief Audit Executive is ultimately responsible for Internal Audit’s Quality Assurance and Improvement Program (QAIP), which covers all types of Internal Audit activities. The QAIP is designed to provide reasonable assurance that the Internal Audit activity:

- Complies with professional auditing standards, codes of ethics, and state law.
- Is monitored to ensure effective and efficient operations.
- Adds value and improves organizational operations.
- Includes both periodic and ongoing internal assessments.
- Includes an external assessment at least once every three years, the results of which are communicated to executive management and the Audit Committee.

See Appendix C on pages 9 - 10 for QAIP-related state law and professional auditing standards. For examples of the components of a QAIP, see Appendix D on page 11.

INTERNAL ASSESSMENTS

A. Ongoing Reviews are conducted through:

- Supervision of engagements.
- Regular, documented review of work papers during engagements by appropriate Internal Audit staff.
- Consistent use of audit policies and procedures for each engagement to ensure compliance with applicable planning, fieldwork, and reporting standards.
- All final reports and recommendations are reviewed and approved by the chief audit executive.
- Feedback from customer surveys on individual engagements.
- Analyses of performance metrics established to improve effectiveness and efficiency.

B. Periodic Reviews are designed to assess conformance with professional auditing standards, codes of ethics, and state law, and the efficiency and effectiveness of the internal audit activity in meeting the needs of its various stakeholders. Periodic reviews are conducted through:

- Routine independent customer surveys.
- Quarterly activity and performance reporting to executive management and the Audit Committee.
- Annual risk assessment for purpose of annual audit planning.
- Annual self-assessment reviews to assess compliance with internal audit policies and auditing standards, achievement of internal audit performance metrics, and benchmarking of best practices.
EXTERNAL ASSESSMENTS

Professional auditing standards, the Texas Internal Auditing Act, and the TRS Internal Audit Charter (Charter), require periodic external quality assessment reviews. The Charter recognizes the importance of ongoing quality assessments. The Audit Committee and the Board of Trustees reviewed and approved a revised charter in September 2010. It states that the chief audit executive should “Maintain an effective quality assurance program to include supervision, training, internal reviews, and external reviews.” TRS Internal Audit has an external assessment every three years as required.


The most recent external quality assessment review reported to the Audit Committee in April 2010 stated in part that “it is our opinion that the Teacher Retirement System’s Internal Audit Department ‘fully complies’ with the . . . International Standards for the Professional Practice of Internal Auditing, the U.S. Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).”

TRS Internal Audit will receive its next external quality assessment review in fiscal year 2013.

QUALITY ASSURANCE IMPROVEMENT PROGRAM REPORTING

A. Internal Assessments – Results of internal assessments will be reported to executive management and the Audit Committee at least annually. Some internal assessment reports, such as audit plan status and performance metrics status, are reported on a quarterly basis.

B. External Assessments – Results of external quality assurance reviews are provided to executive management and the Audit Committee. The external quality assurance review report is accompanied by a written action plan in response to significant comments and recommendations contained in the report.

C. Follow-up – The chief audit executive implements appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

* * * *

1 The State Agency Internal Audit Forum or SAIAF (pronounced “safe”) is a voluntary association composed of chief audit executive level representatives of Texas state agencies and institutions of higher education with an internal audit function. The mission of SAIAF is to promote the effective and efficient use of state agency internal audit resources toward accountability, productivity, and enhancement of management control over operations.
We express our appreciation to the TRS Board of Trustees and the Board Audit Committee as well as TRS management and staff at all levels who consistently support the Internal Audit staff and their activities.

Amy Barrett, CIA, CPA
Chief Audit Executive

Jan Engler, CIA, CISA, CFE
Internal Audit Manager

Stella Pullon, BBA
Internal Audit Intern
APPENDIX A

OBJECTIVE, SCOPE, METHODOLOGY, AND CONCLUSION

REVIEW OBJECTIVE
Determine if the TRS Internal Audit function complies with International Professional Practices Framework (IPPF), Generally Accepted Government Auditing Standards (GAGAS), and Texas State Law, and identify best practices and opportunities for improvement.

SCOPE
The review period was for fiscal year 2011. We used Teammate procedures and steps that included IPPF, GAGAS, and Texas Internal Auditing Act requirements to conduct the annual TRS Internal Audit Self-Assessment Review project.

METHODOLOGY
We evaluated compliance with the following statutes and professional standards:

- *Texas Government Code* Chapter 2102 (Texas Internal Auditing Act)
- *International Standards for the Professional Practice of Internal Auditing and the Code of Ethics* of the Institute of Internal Auditors, Inc. (IIA)
- *Generally Accepted Government Auditing Standards* (GAGAS) developed by the U.S. Government Accountability Office (GAO)

During fieldwork, we performed the following procedures:

- Reviewed the most current TRS Internal Audit Charter, Internal Audit plan, TRS Internal Audit job descriptions, TRS Internal Audit certifications and Continuing Professional Education hours, Request for Purchase (RFP) documentation, and follow up documentation of the past recommendations
- Interviewed the Chief Audit Executive and other TRS Internal Audit Staff

CONCLUSION
Based on the self-assessment results, we believe the TRS Internal Audit function complies with The Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, the U.S. Government Accountability Office’s *Government Auditing Standards*, the IIA *Code of Ethics*, and the Texas *Internal Auditing Act*. During the assessment we identified best practices and opportunities for improvement as noted in the report appendix below.
APPENDIX B
IDENTIFIED BEST PRACTICES
AND OPPORTUNITIES FOR IMPROVEMENT

BEST PRACTICES

1. Automated Follow-up Process
   Internal Audit has recently implemented TeamCentral, an automated module in TeamMate used for follow-up and tracking of outstanding audit recommendations. TeamMate is the automated working paper software Internal Audit has used for the past three years.

   Because the new TeamCentral module can automatically request status updates from management via email and management can directly access the module to provide responses, the new process will be more efficient for Internal Audit staff as well as the business unit.

2. Departmental Strategic Planning
   Internal Audit has recently developed the Internal Audit Strategic Plan for the fiscal years 2012 – 2016, which will be reviewed and revised each year as needed. The new departmental strategic plan includes initiatives designed to support key TRS strategic goals and objectives, add value, and improve operations.

   Having a master plan helps the internal audit function better identify and communicate its needs and make decisions about obtaining or dedicating future resources that fit into the defined goals and objectives.

OPPORTUNITIES FOR IMPROVEMENT

1. Further Explore Ways to Ensure Recommendations are Cost-Effective
   Internal Audit enhanced its project program template last year by adding specific steps to obtain and document management’s input about how identified risks could be mitigated and the cost-effectiveness of the proposed solutions. However, still more could be done to better meet management and stakeholder needs and expectations.

   Internal Audit should further explore ways to formally capture the cost-benefit of significant recommendations. Moreover, the Chief Audit Executive should obtain and incorporate executive management level feedback to help ensure significant recommendations are consistently practical and cost-effective.
2. **Include Selected Board Reports in Continuous Auditing Projects**

Board members and others need consistently reliable information that is provided in large part through the Board meeting materials. In addition, most members and many other constituents will only know TRS by the quality of its written and electronic communications.

Internal Audit’s continuous auditing projects should include analyses/assessments of selected routine and ad hoc reports and other materials that are provided to the TRS Board of Trustees.

3. **Improve Documentation for Use of Specialists**

The automated project planning template used for documenting audit work does not directly require the auditor to document the consideration of whether the work of other auditors or specialists would be used during the project or how the auditor should proceed when using the work of others. Without clear expectations for the type of documentation needed, a less experienced auditor could fail to document important considerations made and decisions reached while planning the engagement.

Although all current audit project leaders and managers are senior level or above, Internal Audit will add procedures to its electronic project planning template requirements to improve supporting documentation regarding the use of specialists during an audit engagement by December 2011.

4. **Improved Monitoring of Accumulated Training Hours**

The chief audit executive is responsible to ensure that audit staff receive the training they need and at the same time, manage available resources. Adequate training directly enhances the auditor’s professional proficiency to perform audits and other engagements. Internal auditors need a minimum of 80 hours of various types of training every two years to maintain their professional certifications. The goal is to ensure that staff are able meet this requirement, but not accumulate significantly more hours than are needed.

Although the amount of accumulated staff training hours went down during the current fiscal year, Internal Audit has enhanced its monitoring processes by using periodic staff reminders, the budgeting process, as well as its annual self-assessment process to better monitor the number of Internal Audit staff training hours accumulated each year.

5. **Improved Student Intern Orientation Process**

Fiscal year 2010 was the first year for the Internal Audit department to have student interns on staff and a well-structured student intern orientation process was not developed prior to bringing two student interns on staff. Newly hired student interns may not arrive with an adequate understanding of the needs and expectations of the TRS Internal Audit department.

TRS Internal Audit will involve their current student intern to assist in developing a more in-depth Intern Orientation process. The newly developed Intern Orientation
process will be reviewed and approved by the chief audit executive prior to becoming part of the department’s established procedures. The estimated implementation date for the new Internal Audit student orientation procedures is December 2011.
The *Texas Internal Auditing Act, Texas Government Code §2102.007 (a) (5)* states that the internal auditor shall “conduct quality assurance reviews in accordance with professional standards . . . and periodically take part in a comprehensive external peer review.”

**Texas Government Code §2102.011** also requires that “The internal audit program shall conform to the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors, and generally accepted government auditing standards.”

I. **The Institute of Internal Auditors (IIA) Code of Ethics**

*The Code of Ethics states the principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct, and behavioral expectations rather than specific activities.*

*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.*

II. **IIA Standard 1000 – Purpose, Authority, and Responsibility**

*The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.*

III. **IIA Standard 1100 – Independence and Objectivity**

*The internal audit activity must be independent, and internal auditors must be objective in performing their work.*

IV. **IIA Standard 1200 – Proficiency and Due Professional Care**

*Engagements must be performed with proficiency and due professional care.*
V. IIA Standard 1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

VI. IIA Standard 2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

VII. IIA Standard 2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

VIII. IIA Standard 2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

IX. IIA Standard 2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

X. IIA Standard 2400 – Communicating Results

Internal auditors must communicate the results of engagements.

XI. IIA Standard 2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

XII. IIA Standard 2600 – Resolution of Senior Management’s Acceptance of Risks

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.
APPENDIX D
QUALITY ASSURANCE IMPROVEMENT PROGRAM (QAIP)
COMPONENT EXAMPLES

- Oversee the development and implementation of Internal Audit policies/procedures; administer/maintain the Policy/Procedures manual.
- Assist the chief audit executive and audit staff with budgeting and financial administration for internal audit.
- Administer the general operation of the system for evaluation of audit risk and long-range planning – assisting the CAE and the audit staff in this area.
- Assist internal audit management in the acquisition and maintenance of audit tools and use of technology.
- Oversee the training/development of staff, including selection and administration of training courses; administration of the career planning and performance evaluation processes in internal audit.
- Oversee the system(s) for internal audit statistics/metrics; administer the system for post-audit and other surveys of internal audit customers.
- Administer/monitor quality assurance and process improvement activities, including formal quality assessment processes.
- Oversee/administer information gathering and preparation of the periodic summary reports by internal audit to senior management and the Audit Committee (including reports of the results of internal and external quality assessments).
- Administer/maintain the comprehensive follow-up tools for recommendations and action plans resulting from internal audit engagements and the work of external auditors and other auditors and consultants.
Appendix C

Self-Assessment Report
ADJUTANT GENERAL’S DEPARTMENT
STATE INTERNAL AUDIT OFFICE (JFTX-IA)

PEER REVIEW OCTOBER 2007
SELF-ASSESSMENT REPORT

WILLIAM J. FOWLER, CPA, CIA
INTERNAL AUDITOR

MICHAEL D. GARNER, CIA, CFE
DIRECTOR, STATE INTERNAL AUDIT OFFICE

OCTOBER 2007
OVERALL CONCLUSION

After completing the self-assessment for our October 2007 peer review, our conclusion is that the Adjutant General’s Department’s (department) Internal Audit function is in full compliance with The IIA Standards for the Professional Practice of Internal Auditing, the U.S. Government Accountability Office’s Government Auditing Standards, the IIA Code of Ethics, and the Texas Internal Auditing Act. Our conclusion is based on completion of a self-assessment using the Master Peer Review Program and the review of a complete set of working papers (IA #01-07) using the Working Paper Review Tool. As part of our commitment to continuous improvement, during the self-assessment we identified opportunities to enhance our processes and documentation, and have identified them in the section of this report entitled “Opportunities for Improvement.” We have also identified things that we are doing well and have identified them in the final section of this report entitled “Best Practices.”

More detail regarding our self-assessment is found below. It includes an assessment of compliance with The IIA Code of Ethics, followed by eleven sections presented in the order of The IIA Standards. The self-assessment, performed using the Master Peer Review Program, and the related reference file of supporting documentation are included separate from this report.

DETAILED CONCLUSIONS

IIA Code of Ethics
Our self-assessment indicates that the Internal Audit Charter documents the expectation that auditors will conform to the IIA Code of Ethics. Also, the Internal Audit Policies and Procedures (A-3 2/16) help ensure that internal audit personnel understand and abide by the Code of Ethics.

I. 1000 Purpose, Authority, and Responsibility
The purpose, authority and responsibility of Internal Audit are specified in the Internal Audit Charter. The Charter defines the nature of assurance and consulting services. It was approved by the Adjutant General as administrative head of this agency.

II. 1100 Independence and Objectivity
Based on our self-assessment, our conclusion is that the Adjutant General’s Department’s (department) Internal Audit function is independent and free from impairments, and the auditors are objective in performing their work. The Director of Internal Audit (Director) reports operationally to the Adjutant General, who approved the Internal Audit Charter. The Adjutant General reviews and approves the Annual Audit Plan and significant deviations to it. He also reviews all audit reports before they are issued. Internal audit has not experienced any scope limitations and has been able to report all findings and conclusions objectively. No instances of conflict of interest have occurred.
III. 1200 Proficiency and Due Professional Care

Our conclusion is that Internal Audit assignments are performed with proficiency and due care; professional judgment is used in planning, performing, and reporting; and the staff collectively possesses adequate professional competence. The Director of Internal Audit has both a BBA degree and Master’s degree in Quality Systems Management and is a CIA and CFE with over twenty-eight years of audit experience, including thirteen years as the Internal Audit Director. The staff internal auditor is a former Internal Audit Director and has over thirty years experience in management, accounting, and auditing and his professional certifications include CIA and CPA. The education and experience of the internal auditors provide sufficient knowledge to identify indicators of fraud and information technology risks. Audits in the Annual Audit Plan are assigned according to the knowledge, skills, and experience of the auditors. A risk assessment is performed for each audit. The budget provides funding for all personnel to earn substantial numbers of continuing education credits and to pursue additional certifications.

IV. 1300 Quality Assurance and Improvement Program

We maintain that Internal Audit has an effective quality assurance program that includes external peer reviews and internal review processes. The Director of Internal Audit approves audit plans and audit programs, as required by Internal Audit policies and procedures. All working papers are reviewed by the Director and staff auditor. The Director reviews and approves all audit reports. Quality control discussions are held between the Director and staff auditor at least once a week. Audit reports state that they are performed in accordance with Standards.

V. 2000 Managing the Internal Audit Activity

Our self-assessment review indicated that the internal auditing department is managed in accordance with relevant Standards. Internal Audit Policies and Procedures are up-to-date and maintained electronically and physically by both the Director and the staff auditor. The Director prepares a risk-based Annual Audit Plan that is approved by the Adjutant General; monitors and communicates the progress of projects; coordinates with other audit entities to prevent duplication; and prepares an Annual Report on Internal Audit. Audit reports provide value-added recommendations to address the issues that are identified. Follow-up reviews add value by informing management of the status of audit issues identified in previous reports.

VI. 2100 Nature of Work

Our conclusion based on the self-assessment is that Internal Audit contributes to the improvement of risk management, control, and governance processes through its audits and management assistance services. Internal Audit performs an agency-wide annual risk assessment that forms the basis for the Annual Audit Plan. The Preliminary Survey activities ensures that risk exposures are considered in the areas of reliability of information, safeguarding of assets, compliance, efficiency and effectiveness of operations, and the accomplishment of goals and objectives and documented in a
Preliminary Survey report. The Director has provided significant input on ethics and fraud prevention policies, and has conducted training on fraud prevention and detection.

VII. 2200 Engagement Planning
Based on our review of the working papers for the Audit of the Electronic Security System (IA #01-07), we conclude that Internal Audit has complied with the Standards. The Internal Auditors develop audit objectives for each audit. An Audit Program is prepared for each audit that identifies activities to be performed in order to accomplish the audit objectives. The Internal Audit Director assigns audits in the Audit Plan according to the knowledge, skills, and experience of the auditors.

VIII. 2300 Performing the Engagement
The Internal Auditors comply with Standards in performing audits and consulting projects. The auditors prepare working papers to document the Audit Program steps performed to achieve the objectives. Evidence provided to support results and conclusions is sufficient, competent, and relevant. Audits and consulting projects are properly supervised, and all aspects of information included the report are reviewed by the Director before reports are issued.

IX. 2400 Communicating Results
Based on our working paper review, we conclude that Internal Auditors comply with standards regarding communicating the results of engagements. Written reports are prepared for all audits and consulting engagements. Audit reports include the objectives, scope, and methodology. The results are communicated to the appropriate internal and external parties, including executive management, the Governor’s Office, State Auditor’s Office, Legislative Budget Board, and Sunset Advisory Commission.

X. 2500 Monitoring Progress
We maintain that Internal Audit has an effective system for monitoring the disposition of results communicated to management. Internal Audit maintains a database for tracking the status of issues identified in audit reports, and performs follow-up reviews of previously unresolved issues. The Annual Audit Plan includes the follow-up reviews to be performed for the year. The results of any unresolved audit issues are communicated to executive and related program management.

XI. 2600 Resolution of Management’s Acceptance of Risk
No instance has occurred in which the Internal Audit Director has believed that executive management has accepted a level of residual risk that is unacceptable to the organization, but if this situation were to occur, the Director would report it to the Internal Audit Steering Committee and to the Adjutant General.
OPPORTUNITIES FOR IMPROVEMENT

During our preparation of the self-assessment, we identified some improvements that we plan to make to our practices and documentation.

1. Start obtaining customer feedback through surveys – We are currently not sending out surveys or documenting customer feedback for our audit activities.
2. Develop an improved follow-up system on audit findings and issues – Although our documentation of significant unresolved audit findings is working, we plan to improve our process for all finding and issues. This was identified as an area for improvement in the EMS Gap Analysis we conducted on the department (EMS #01-07).
3. Improve work paper documentation and review – Although we maintain and review our audit work papers, we plan to make additional effort to ensure that only work papers that are needed to support the report and audit program are maintained in the file.
4. Improve work paper referencing and cross-referencing – We plan to improve the completeness and clarity of this process.
5. Prepare Monitoring reports – Although we conduct a lot of monitoring activities in areas of high risk for which we do not conduct audits or develop related reports, we have not been documenting this process through procedures, work papers, and reports. We plan to develop a process for addressing this concern.
6. Use Internal Audit Standards for EMS Audits – We have been following ISO 14000 series auditing standards as we conduct internal audits of the department’s Environmental Management System (EMS). In addition to these standards, we plan to start applying the IIA and GAO standards to all the EMS auditing work we perform. We feel this will improve the value we provide to the department in this area of our work.

The Adjutant General’s Department’s State Internal Audit Office is committed to continuous improvement and as such will continue to revisit and improve our practices and related documentation.

BEST PRACTICES

We consider the following activities that we perform as best practices.

- EMS Audits – The department is improving our management process as it relates to our environmental activities and we are contributing to the improvements being made through our internal audit work in this area.
- Major Controls Review – We have brought together the work that both Internal Audit and department management have done and plan to do in order to identify, prioritize, manage, and address the significant risks to the department. This report also identifies the specific high risk areas within the department that need to be addressed and what is planned to address these risks.
• Professional Association Involvement – The Internal Audit Director is member and involved in both the Institute of Internal Auditors (IIA) (prior board member) and the Association of Certified Fraud Examiners (ACFE) (has been on the board for the past three years). Both the Director and the staff auditor attend meetings and seminars sponsored by the local chapters of both organizations.

• Professional Publication Articles – The Director has written a monthly article for publication in the local ACFE Chapter’s newsletter for the past nine years (average eight articles per year).

• Professional Presentations – During the past two years the Director has developed and provided professional training presentations on Internal Audit to University of Texas Graduate Students (two presentations); local professional associations; a regional professional symposium; a national conference; and an international conference.

• Internal Audit Steering Committee – Both the department’s federal and state auditors meet twice a year with the department’s executive management to discuss audit issues involving risk management, governance, and internal controls. This federal and state team approach provides a comprehensive approach to the department’s audit coverage.

• Policies and Procedures – The Internal Audit Manual includes a comprehensive set of policies and procedures used by the State Internal Audit Office to better understand and fulfill their responsibilities. This manual is updated (last update was July 2005) and approved by the Director every three years and the appropriate sections of the manual are approved by the Adjutant General.
Appendix D

Internal Assessment and Business Plan
Attached is my annual internal assessment of the Internal Audit Department and Business Plan for fiscal year 2012. The internal assessment is a requirement of the Institute of Internal Auditor’s Standard 1311, and included a thorough review of Department procedures, working papers completed in fiscal year 2011, and other practices the Department has implemented, as well as an analysis of the post-audit surveys conducted throughout the year and surveys of agency management and Department staff and finally, an evaluation of the Internal Audit Capability Model introduced in last year’s “Report on the Quality Assessment and Improvement Program”.

The results of the assessment identified that the Internal Audit Department is meeting the requirements of professional standards, as well as providing the agency with value-added information to assist in improving the effectiveness and efficiency of operations. Additionally, the Department is operating at Level 3 – Integrated, on the Capability Model with activities in some elements at a higher capability level.

To ensure continued emphasis on meeting standards and continuous improvement, an expanded battery of performance measures and other specific actions to be taken over the next year have been developed. These are summarized in the following tables and will be reported on as indicated.
<table>
<thead>
<tr>
<th>Activity</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Update Audit Manual</td>
<td>12/1/2011</td>
</tr>
<tr>
<td>• Update Charter – obtain Board approval</td>
<td>First Board meeting after 12/1/2011</td>
</tr>
<tr>
<td>• Formalize a process to communicate and track ideas in the IA Department.</td>
<td>12/31/2011</td>
</tr>
<tr>
<td>• Update IA tracking tools and administrative processes.</td>
<td>6/1/2012</td>
</tr>
<tr>
<td>• Conduct a technology skills assessment in the IA Department and develop a strategy to reduce gaps.</td>
<td>6/1/2012</td>
</tr>
<tr>
<td>• Obtain External Quality Assurance Review</td>
<td>8/31/2012</td>
</tr>
<tr>
<td>• Partner with Staff Development and Training to incorporate governance, risk management, and controls into management development training.</td>
<td>8/31/2012</td>
</tr>
<tr>
<td>• Partner with management to develop a documented risk management process for the agency.</td>
<td>8/31/2013</td>
</tr>
</tbody>
</table>

### Performance Measures

<table>
<thead>
<tr>
<th>Measure</th>
<th>Goal</th>
<th>Reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>The percent of the approved audit plan completed.</td>
<td>&gt;= 80%</td>
<td>Committee Meetings</td>
</tr>
<tr>
<td>The percent of audits completed within 110% of budget.</td>
<td>&gt;= 75%</td>
<td>Committee Meetings</td>
</tr>
<tr>
<td>The percentage of high-risk areas included in audit work.</td>
<td>&gt;= 70%</td>
<td>Committee Meetings</td>
</tr>
<tr>
<td>The percent of staff time spent on planned audit activities.</td>
<td>&gt;= 70%</td>
<td>Committee Meetings</td>
</tr>
<tr>
<td>The average overall customer satisfaction score on post-audit surveys.</td>
<td>&gt;= 4.0</td>
<td>Committee Meetings</td>
</tr>
<tr>
<td>The percent of staff turnover.</td>
<td>&lt;= 12.5%</td>
<td>Annual</td>
</tr>
<tr>
<td>The percent of staff holding at least one professional certification.</td>
<td>&gt;= 75%</td>
<td>Annual</td>
</tr>
<tr>
<td>The percent of staff meeting continuing professional education requirements.</td>
<td>100%</td>
<td>Annual</td>
</tr>
<tr>
<td>The percent of staff actively participating in professional organizations.</td>
<td>&gt;= 50%</td>
<td>Annual</td>
</tr>
</tbody>
</table>
Table of Contents

Review of the Charter ......................................................................................................... 1
Review of the Audit Manual .................................................................................................. 1
Review of Work Papers ....................................................................................................... 1
Review and Discussion of Industry Best Practices .............................................................. 2

Surveys
  Post-audit Surveys .................................................................................................. 2
  Management Survey .................................................................................................. 3
  Internal Audit Department Staff Survey .................................................................... 3

Internal Audit Department Staff ..................................................................................... 4

Performance Measures ................................................................................................... 4

External Quality Assurance Review .................................................................................. 5

Internal Audit Technology Strategy .................................................................................. 6

Internal Audit Capability Model for the Public Sector .................................................... 6

Appendices
  Appendix A – Comparison of Post-audit Survey Results – FY 2010 to 2011 .......... 10
  Appendix B – Annual Management Survey ................................................................. 11
  Appendix C – Internal Audit Staff Survey ................................................................. 14
  Appendix D – TYC Internal Audit Department Technology Strategy ....................... 16
  Appendix E – TYC Internal Audit Department Capability Model Status ............... 17
The Institute of Internal Auditor’s (IIA’s) International Standards for the Professional Practice of Internal Auditing (Standards) require internal audit activities to implement a Quality Assurance and Improvement Program, which consists of periodic internal assessments and an external assessment at least once every five years. The internal assessments must include an ongoing monitoring process and periodic reviews to evaluate the internal audit department’s conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards; which can be conducted through self-assessment.

**Review of the Charter**

The Charter currently in place was adopted by the Board in November 2010. Review of its contents and comparison to Standards identified that it continues to include required elements and current terminologies. The Charter establishes the purpose, authority, and responsibility of the Internal Audit Department, as well as the reporting requirements of the Director to the Board and adopts the IIA’s Definition of Internal Auditing and Code of Ethics. It is typically reviewed and adopted annually; however, with the impending consolidation of the Texas Youth and Juvenile Probation commissions and appointment of a new Board, the Charter will be updated and presented for adoption to the new Board.

**Review of the Audit Manual**

Review of the guidelines included in the Audit Manual identified that changes are needed to bring some of the documented procedures in line with practice. Changes due to evolving technology, the reorganization of the Department, and experience levels of staff have resulted in some inconsistencies. These updates will be finalized to be effective December 1, 2011, when the new agency is established.

**Review of Work Papers**

Working papers are reviewed and coaching notes given as audit work progresses. Additionally, a Working Paper Review Tool is completed by the team lead and verified by the Senior Auditor assigned to oversee the audit attesting to compliance with the standards. Although work papers consistently met the standards over this past year, opportunities for improvement continue to exist and are addressed as they are identified. During an analysis of the Department’s strengths, weaknesses, opportunities, and threats, audit staff identified work paper consistency as a weakness for the Department. This analysis and ongoing review resulted in a number of training sessions throughout the year on such topics as TeamMate (the Department’s electronic work paper application), reviewing for and identifying trends, and working paper requirements.
Review and Discussion of Industry Best Practices

The Department routinely reviews and discusses professional standards and guidance, journal articles, white papers, and other literature during staff meetings. Some of the specific activities that occurred in 2011 were:

- Review and answering practice questions from relevant professional exams. This helps staff prepare to take these exams by giving examples of the types of questions asked as well as having a thorough discussion of the correct, and incorrect, responses.
- Staff presented information learned in training or through professional reading. Some examples of this include: critical thinking, assessing the reliability of computer processed data, and the IIA’s value proposal.
- Articles from professional literature are discussed to capitalize on the materials we receive and strengthen staff understanding. Some of the articles discussed this past year include: “Governance Perspectives”, “Are You Setting Up Hurdles for the Reader?”, and “Back-to-Basics: Client Interviews”.

Surveys

The Internal Audit Department surveys management at the conclusion of each audit, about our work specifically related to that project, and uses the results to identify areas for improvement. Additionally, as part of this assessment, management was surveyed on their views regarding the services Internal Audit provides, and audit staff were surveyed on how well supported they feel, as well as their level of competency in specific areas.

Post-audit Surveys. The post-audit survey is an electronic survey document that collects input on the technical and soft skills the audit team exhibited during the engagement. The survey is completed anonymously and allows for written comments to clarify ratings or provide additional information. Results of the survey are discussed with the audit team; emphasis on improving the areas with the lower ratings is made in subsequent assignments and high scores are shared as successes with the entire Department.

While response levels to these surveys have been a challenge, improvements have been made. Surveys are typically sent out to executive management, department heads and others based on the subject of the audit; by expanding distribution to all staff in the area audited and including a statement on the survey email to forward it to anyone who may have input, the number of individuals responding has increased. In fiscal year 2011 surveys were conducted for ten audits released during the year. On a scale of “1” (low) to “5” (high) the overall average rating was 4.28 compared to an average score of 4.18 in fiscal year 2010. The average score for all but two questions increased from fiscal year 2010 to 2011 – these related to the courteousness of audit staff and the clarity in which audit objectives were communicated.
Review of the individual audits with the lowest scores for these two areas showed that one was likely a factor of opening the survey to a wider pool, many of whom did not have contact with the audit team and the other a disagreement on what the audit should have included. While neither of these instances sounds an alarm, the Department is conscientious of how we are viewed and remains vigilant in being professional and respectful with agency management and staff. A table of the aggregate survey results, as well as a comparison to last year’s results, is included in Appendix A.

**Management Survey.** Department heads were surveyed to collect information on the activities management considers most important and the effectiveness of the Internal Audit Department at meeting them, as well as how well the Department staff and director works with management and staff. It was sent to 43 managers of which 23 responded (53.5%).

Review of responses identified that management considers the work Internal Audit does important and the Department a valuable resource with an average score of 4.59 out of 5 when asked how well the Internal Audit Department was meeting their needs. Responses clearly communicated that they are familiar with the annual planning process and satisfied with the level of involvement they have with the Director. Also, of the five staff attributes they were asked to rate audit staff on using a scale of “1” (low) to “5” (high), four averaged higher than 4.5; the highest was professionalism (4.82) and the lowest knowledge of their operation (4.18). A summary of this survey is in Appendix B.

**Internal Audit Department Staff Survey.** Staff were asked a series of questions related to how they would rank their knowledge and skill and rating other areas of the Department. Review of their responses identified that corporate governance and auditing information technology were rated lower by more staff than other areas; these skills will be the focus of training efforts this year. Staff ratings on training opportunities, involvement in the audit process and other areas received high ratings that corresponded with the level of skill and responsibility of the auditor responding.

Staff also identified several things they like most about their job, such as: the work environment, the ability to grow professionally and lead at the same time, and the team cohesiveness of the Department; as well as things to improve the Department: making job titles more descriptive of the responsibilities, eliminating/reducing paper as much as possible, and increasing audit presence at operations team meetings to stay connected with management trends and concerns. During this next year we will work to ensure the strengths remain and take actions to improve in as many of the areas identified for improvement as possible. A summary of this survey is in Appendix C.
Internal Audit Department Staff

Including the Director, the Internal Audit Department consists of eight staff with tenure with the agency that ranges from approximately 18 months to 15 years. Five of the staff hold at least one professional designation; the certifications and number of staff who hold them are as follows.

<table>
<thead>
<tr>
<th>Certification</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Internal Auditor (CIA)</td>
<td>4</td>
</tr>
<tr>
<td>Certified Public Accountant (CPA)</td>
<td>1</td>
</tr>
<tr>
<td>Certified Government Auditing Professional (CGAP)</td>
<td>2</td>
</tr>
<tr>
<td>Certified Information Systems Auditor (CISA)</td>
<td>1</td>
</tr>
<tr>
<td>Certified Fraud Examiner (CFE)</td>
<td>1</td>
</tr>
</tbody>
</table>

Additionally, one staff member has passed the CGAP exam and is awaiting final confirmation and award of her certification, and two are studying for the CIA.

Audit staff attended 583 hours of training this past year, 141 (24%) of which were obtained at no out-of-pocket cost to the agency. This was achieved through staff covering the cost of professional luncheons, attending free “members-only” webinars conducted by the IIA, Department staff providing training at staff meetings, and presenting at the annual conference sponsored by the State Auditor’s Office.

While emphasis is put on returning to the office and sharing the information received in training, efforts are being made to have certain trainings attended by all staff. For example, with the requirements of the Standards and continuous increase in reliance on technology, all staff will be attending training on information technology general controls. Staff are also attending much of the training offered within the agency related to CoNEXTions® to gain an understanding of the primary program in place to serve the youth.

Performance Measures

The Internal Audit Department reports three measures to the Board Finance and Audit Committee, of which it was successful in meeting two of the three in fiscal year 2011.

<table>
<thead>
<tr>
<th>Measure</th>
<th>FY 2011 Goal</th>
<th>FY 2011 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>The percent of time spent direct on audit work</td>
<td>70%</td>
<td>76%</td>
</tr>
<tr>
<td>The percent of the audit plan completed</td>
<td>80%</td>
<td>53%</td>
</tr>
<tr>
<td>The average overall score on the post-audit survey</td>
<td>4.0</td>
<td>4.28</td>
</tr>
</tbody>
</table>
The Department fell short of completing 80% of the audit plan as a result of reprioritizing and cancelling planned facility audits due to management decisions related to facility closures.

In addition to the three measures reported to the Board, the Director meets with the two Senior Auditors on a monthly basis to review and discuss project budgets compared to actual hours recorded by staff and other administrative issues. During this past year, three staff were assigned team lead responsibilities and coached to ensure they successfully met the objectives of the audits. While necessary, this type of activity increases the time it takes to complete audit work; during fiscal year 2011, seven of ten (70%) audits issued were completed within the budgeted hours. Performance measures that will be tracked in fiscal year 2012 and the goals are as follows:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The percent of the approved audit plan completed.</td>
<td>&gt;= 80%</td>
</tr>
<tr>
<td>2. The percent of audits completed within 110% of budget.</td>
<td>&gt;= 75%</td>
</tr>
<tr>
<td>3. The percent of high-risk areas included in audit work.</td>
<td>&gt;= 70%</td>
</tr>
<tr>
<td>4. The percent of staff time spent on planned audit activities.</td>
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</tr>
<tr>
<td>5. The average overall customer satisfaction score on post-audit surveys.</td>
<td>&gt;= 4.0</td>
</tr>
<tr>
<td>6. The percent of staff turnover.</td>
<td>&lt;=12.5%</td>
</tr>
<tr>
<td>7. The percent of staff holding at least one professional certification.</td>
<td>&gt;=75%</td>
</tr>
<tr>
<td>8. The percent of staff meeting continuing professional education</td>
<td>100%</td>
</tr>
<tr>
<td>requirements.</td>
<td></td>
</tr>
<tr>
<td>9. The percent of staff actively participating in professional organizations.</td>
<td>&gt;= 50%</td>
</tr>
</tbody>
</table>

The first five measures will be reported to the Finance and Audit Committee at each meeting and all will be reported in the Department’s annual internal assessment and report on its Quality Assurance and Improvement Program.

**External Quality Assurance Review**

The Department’s last peer review was conducted in August 2009, with a conclusion that the Internal Audit Department “fully complies” with the standards and issuance of six recommendations to further improve. The next peer review is due by the end of fiscal year 2012; preparation for this review is underway. This review will utilize the SAIAF Peer Review Process and a comprehensive self-assessment will be completed prior to the review’s commencement.
Internal Audit Technology Strategy

In an effort to continue improving operations and increase knowledge and skills, an audit technology strategy has been developed for the first time. This focuses the Department’s efforts in ensuring its administrative needs are met; streamlines processes; calls for the assessment and training of audit staff; and strives to involve Internal Audit in the front-end of the development process.

Within the Department, Internal Audit will focus on fully capitalizing on the tools we have as well as identifying and obtaining training where needed. Additionally, emphasis will be placed on inserting Internal Audit into the governance and development processes. Progress made during fiscal year 2012 will be monitored and reported in the next internal assessment as well as any adjustments that are needed to the strategy. A model of the Internal Audit Technology Strategy is in Appendix D.

Internal Audit Capability Model for the Public Sector

This framework was developed and published by the IIA Research Foundation in September 2009 and identifies the fundamentals needed for effective internal auditing in the public sector. It describes an evolutionary path for a public sector organization to follow in developing effective internal auditing to meet the organization’s governance needs and professional expectations. The framework consists of five levels of “maturity” which include:

- **Level 1** - Initial: no sustainable, repeatable capabilities – dependent upon individual efforts
- **Level 2** – Infrastructure: sustainable and repeatable internal audit practices and procedures
- **Level 3** – Integrated: internal audit management and professional practices uniformly applied
- **Level 4** – Managed: internal audit integrates information from across the organization to improve governance and risk management
- **Level 5** – Optimizing: internal audit learning from inside and outside the organization for continuous improvement

While each level establishes key processes that must be implemented to attain, many require coordination and action by both the internal audit activity and the organization. In the model below, the area shaded in the darker blue can be fully controlled by the audit function whereas those with the lighter shading are dependent on the Department’s coordination with the organization to be attained. For example, the internal audit activity can fully control the team building and competency of the Department staff for Level 3 – People Management; however, effective and ongoing relationships for Level 5 – Organizational Relationships & Culture requires the audit activity and organization management to work together for attainment.
### Internal Audit Capability Model for the Public Sector

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>IA Recognized as Key Agent of Change</td>
<td>Leadership Involvement with Professional Bodies</td>
<td>Continuous Improvement in Professional Practices</td>
<td>Public Reporting of IA Effectiveness</td>
<td>Effective &amp; Ongoing Relationships</td>
<td>Independence, Power, &amp; Authority of the IA Activity</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level 4 – Managed</th>
<th>Overall Assurance on Governance, Risk Management, &amp; Control</th>
<th>IA contributes to Management Development</th>
<th>Audit Strategy Leverages Organization’s Management of Risk</th>
<th>Integration of Qualitative &amp; Quantitative Performance Measures</th>
<th>CAE Advises &amp; Influences Top-level Management</th>
<th>Independent Oversight of the IA Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>IA Activity Supports Professional Bodies</td>
<td>Workforce Planning</td>
<td>Audit Strategy Leverages Organization’s Management of Risk</td>
<td>Integration of Qualitative &amp; Quantitative Performance Measures</td>
<td>CAE Advises &amp; Influences Top-level Management</td>
<td>Independent Oversight of the IA Activity</td>
<td>CAE Reports to Top-level Authority</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level 3 – Integrated</th>
<th>Advisory Services</th>
<th>Performance/Value-for-Money Audits</th>
<th>Quality Management Framework</th>
<th>Performance Measures</th>
<th>Coordination with Other Review Groups</th>
<th>Management Oversight of the IA Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Building &amp; Competency</td>
<td>IA Activity Supports Professional Bodies</td>
<td>Risk-based Audit Plans</td>
<td>Cost Information</td>
<td>Coordination with Other Review Groups</td>
<td>Management Oversight of the IA Activity</td>
<td>Funding Mechanisms</td>
</tr>
<tr>
<td>Workforce Coordination</td>
<td>Workforce Planning</td>
<td>IA Management Reports</td>
<td>Successful Management of the IA Activity</td>
<td>Coordination with Other Review Groups</td>
<td>Management Oversight of the IA Activity</td>
<td>Funding Mechanisms</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level 2 – Infrastructure</th>
<th>Compliance Auditing</th>
<th>Individual Professional Development</th>
<th>Professional Practices &amp; Processes Framework</th>
<th>IA Operating Budget</th>
<th>Managing within the IA Activity</th>
<th>Full Access to the Organization’s Information, Assets, &amp; People Reporting Relationships Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skilled People Identified &amp; Recruited</td>
<td>Professional Practices &amp; Processes Framework</td>
<td>Audit plan Based on Management/Sakeholder Priorities</td>
<td>IA Business Plan</td>
<td>Managing within the IA Activity</td>
<td>Full Access to the Organization’s Information, Assets, &amp; People Reporting Relationships Established</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level 1 – Initial</th>
<th>Compliance Auditing</th>
<th>Individual Professional Development</th>
<th>Professional Practices &amp; Processes Framework</th>
<th>IA Operating Budget</th>
<th>Managing within the IA Activity</th>
<th>Full Access to the Organization’s Information, Assets, &amp; People Reporting Relationships Established</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad hoc &amp; unstructured; isolated single audits or reviews of documents &amp; transactions for accuracy &amp; compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Using this model, the Internal Audit Department is operating at Level 3 – Integrated in all six elements and higher in some. The following tables identify, by element which key process areas the Internal Audit Department has implemented, which are in progress or partially implemented, and those where work has not begun. A summarized illustration of the Department’s operating level as related to the capability model is in Appendix E.
## FY 2012 Internal Assessment and Business Plan

### Services and Role of Internal Auditing

<table>
<thead>
<tr>
<th>Services and Role of Internal Auditing</th>
<th>Implementation Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Internal Audit Recognized as Key Agent of Change</td>
<td>In Progress</td>
</tr>
<tr>
<td>4 Overall Assurance on Governance, Risk Management, and Control</td>
<td>Not In Progress</td>
</tr>
<tr>
<td>3 Advisory Services</td>
<td>Implemented</td>
</tr>
<tr>
<td>3 Performance/Value-for-Money Audits</td>
<td>Implemented</td>
</tr>
<tr>
<td>2 Compliance Auditing</td>
<td>Implemented</td>
</tr>
<tr>
<td>1 No Key Process Areas</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### People Management

<table>
<thead>
<tr>
<th>People Management</th>
<th>Implementation Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Leadership Involvement with Professional Bodies</td>
<td>In Progress</td>
</tr>
<tr>
<td>5 Workforce Projection</td>
<td></td>
</tr>
<tr>
<td>4 Internal Audit Contributes to Management Development</td>
<td>In Progress</td>
</tr>
<tr>
<td>4 Internal Audit Activity Supports Professional Bodies</td>
<td></td>
</tr>
<tr>
<td>4 Workforce Planning</td>
<td></td>
</tr>
<tr>
<td>3 Team Building and Competency</td>
<td>Implemented</td>
</tr>
<tr>
<td>3 Professionally Qualified Staff</td>
<td></td>
</tr>
<tr>
<td>3 Workforce Coordination</td>
<td></td>
</tr>
<tr>
<td>2 Individual Professional Development</td>
<td>Implemented</td>
</tr>
<tr>
<td>2 Skilled People Identified and Recruited</td>
<td></td>
</tr>
<tr>
<td>1 No Key Process Areas</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Professional Practices

<table>
<thead>
<tr>
<th>Professional Practices</th>
<th>Implementation Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Continuous Improvement in Professional Practices</td>
<td>In Progress</td>
</tr>
<tr>
<td>5 Strategic Internal Auditing Planning</td>
<td></td>
</tr>
<tr>
<td>4Audit Strategy Leverages Organization’s Management of Risk</td>
<td>Not In Progress</td>
</tr>
<tr>
<td>3 Quality Management Framework</td>
<td>Implemented</td>
</tr>
<tr>
<td>3 Risk-Based Audit Plans</td>
<td></td>
</tr>
<tr>
<td>2 Professional Practices and Processes Framework</td>
<td>Implemented</td>
</tr>
<tr>
<td>2 Audit Plan Based on Management/Stakeholder Priorities</td>
<td></td>
</tr>
<tr>
<td>1 No Key Process Areas</td>
<td>N/A</td>
</tr>
</tbody>
</table>
# Performance Management and Accountability

<table>
<thead>
<tr>
<th>Implementation Status</th>
<th>Performance Management and Accountability</th>
</tr>
</thead>
</table>
| In Progress            | 5  
|                        | Public Reporting of Internal Audit Effectiveness |
| Implemented            | 4  
|                        | Integration of Qualitative and Quantitative Performance Measures |
| Implemented            | 3  
|                        | Performance Measures  
|                        | Cost Information  
|                        | Internal Audit Management Reports |
| Implemented            | 2  
|                        | Internal Audit Operating Budget  
|                        | Internal Audit Business Plan |
| N/A                    | 1  
|                        | No Key Process Areas |

# Organizational Relationships and Culture

<table>
<thead>
<tr>
<th>Implementation Status</th>
<th>Organizational Relationships and Culture</th>
</tr>
</thead>
</table>
| In Progress            | 5  
|                        | Effective and Ongoing Relationships |
| Implemented            | 4  
|                        | CAE Advises and Influences Top-level Management |
| Implemented            | 3  
|                        | Coordination with Other Review Groups  
|                        | Integral Component of Management Team |
| Implemented            | 2  
|                        | Managing within the Internal Audit Activity |
| N/A                    | 1  
|                        | No Key Process Areas |

# Governance Structures

<table>
<thead>
<tr>
<th>Implementation Status</th>
<th>Governance Structures</th>
</tr>
</thead>
</table>
| Implemented            | 5  
|                        | Independence, Power, and Authority of the Internal Audit Activity |
| In Progress            | 4  
|                        | Independent Oversight of the Internal Audit Activity  
|                        | CAE Reports to Top-level Authority |
| Implemented            | 3  
|                        | Management Oversight of the Internal Audit Activity  
|                        | Funding Mechanism |
| Implemented            | 2  
|                        | Full Access to the Organization’s Information, Assets, and People  
|                        | Reporting Relationship Established |
| N/A                    | 1  
|                        | No Key Process Areas |

Over this next year the Department will focus on ensuring the implemented practices are continued to maintain Level 3 operations as well as work to fully implement Level 4 on both Performance Management and Accountability and People Management. Additionally, work will begin with working with management to develop a documented risk management process for the agency, which will begin working toward implementation of Level 4 for the Services and Role of Internal Auditing and Professional Practices elements.
Appendix A – Comparison of Post-audit Survey Results – FY 2010 to 2011

<table>
<thead>
<tr>
<th>(scale of “1” (low) to “5” (high))</th>
<th>FY2011</th>
<th>FY 2010</th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The audit team demonstrated courtesy.</td>
<td>4.50</td>
<td>4.61</td>
<td>-0.11</td>
</tr>
<tr>
<td>The disruption of daily activities was minimized as much as possible during the audit.</td>
<td>4.47</td>
<td>4.27</td>
<td>+0.20</td>
</tr>
<tr>
<td>The audit team demonstrated effective communication skills.</td>
<td>4.50</td>
<td>4.34</td>
<td>+0.16</td>
</tr>
<tr>
<td>The auditors demonstrated independence and objectivity in performing the audit.</td>
<td>4.37</td>
<td>4.11</td>
<td>+0.26</td>
</tr>
<tr>
<td>The audit team demonstrated technical proficiency in audit areas.</td>
<td>4.16</td>
<td>4.08</td>
<td>+0.08</td>
</tr>
<tr>
<td>The audit status and results were provided in a timely manner.</td>
<td>4.43</td>
<td>4.17</td>
<td>+0.26</td>
</tr>
<tr>
<td>The auditors were willing to provide advice and assistance when needed.</td>
<td>4.21</td>
<td>4.10</td>
<td>+0.11</td>
</tr>
<tr>
<td>The auditors provided adequate feedback during the audit.</td>
<td>4.40</td>
<td>4.29</td>
<td>+0.11</td>
</tr>
<tr>
<td>The audit objectives were clearly communicated to me.</td>
<td>4.15</td>
<td>4.18</td>
<td>-0.03</td>
</tr>
<tr>
<td>Overall, the audit added value to the organization.</td>
<td>4.10</td>
<td>4.04</td>
<td>+0.06</td>
</tr>
<tr>
<td>The audit recommendations were useful.</td>
<td>4.12</td>
<td>4.05</td>
<td>+0.07</td>
</tr>
<tr>
<td>Audit results were reported objectively and with appropriate perspective.</td>
<td>4.11</td>
<td>4.06</td>
<td>+0.05</td>
</tr>
<tr>
<td>The information in the audit report was clear and logical.</td>
<td>4.18</td>
<td>4.06</td>
<td>+0.12</td>
</tr>
<tr>
<td>Average Overall Rating.</td>
<td>4.28</td>
<td>4.18</td>
<td>+0.10</td>
</tr>
</tbody>
</table>
Appendix B – Annual Management Survey

All scored questions were based on a scale of “1” (low) to “5” (high)

*Indicate the importance and effectiveness of each internal auditing activity to you and your department.*

<table>
<thead>
<tr>
<th>Activity</th>
<th>Average Scores</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Importance</td>
<td>Effectiveness</td>
<td></td>
</tr>
<tr>
<td>Consideration of risk when selecting functions or activities to audit.</td>
<td>4.35</td>
<td>4.13</td>
<td></td>
</tr>
<tr>
<td>Fostering a participative effort between your organization and the Internal Audit Department.</td>
<td>4.61</td>
<td>4.43</td>
<td></td>
</tr>
<tr>
<td>Responding to your special requests for assistance.</td>
<td>4.57</td>
<td>4.52</td>
<td></td>
</tr>
<tr>
<td>Providing timely information to you regarding any significant audit points.</td>
<td>4.70</td>
<td>4.35</td>
<td></td>
</tr>
<tr>
<td>Providing audit reports that are clear, concise, and correct.</td>
<td>4.65</td>
<td>4.52</td>
<td></td>
</tr>
<tr>
<td>Providing reasonable audit recommendations that are useful to your organization.</td>
<td>4.70</td>
<td>4.39</td>
<td></td>
</tr>
<tr>
<td>Communicating positive feedback about your organization.</td>
<td>4.61</td>
<td>4.48</td>
<td></td>
</tr>
<tr>
<td>Following up on significant audit points.</td>
<td>4.57</td>
<td>4.59</td>
<td></td>
</tr>
</tbody>
</table>

*The Internal Audit Department prepares an annual audit plan. Please indicate your familiarity with this process.*

- I know about the plan and am provided adequate information 100%
- I know about the plan and am not provided adequate information 0
- I didn’t know they prepare an annual plan. 0

*Indicate your satisfaction with your involvement in Internal Audit’s annual planning process.*

- I am satisfied with my level of involvement. 100%
- I am not satisfied with my level of involvement. 0
Rate the importance of each internal auditing service to you.

<table>
<thead>
<tr>
<th>Service</th>
<th>Avg Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review for compliance with policies and/or procedures.</td>
<td>4.59</td>
</tr>
<tr>
<td>Investigation of allegations.</td>
<td>4.14</td>
</tr>
<tr>
<td>Audits of contractors/suppliers</td>
<td>3.86</td>
</tr>
<tr>
<td>Internal control reviews</td>
<td>4.43</td>
</tr>
<tr>
<td>Financial audits</td>
<td>4.05</td>
</tr>
<tr>
<td>Review of completed capital projects</td>
<td>3.71</td>
</tr>
<tr>
<td>Participation in pre-implementation reviews for major construction or</td>
<td>3.81</td>
</tr>
<tr>
<td>computer system projects</td>
<td></td>
</tr>
<tr>
<td>Participation on ad hoc committees/taskforces</td>
<td>3.95</td>
</tr>
<tr>
<td>Performance audits of agency programs (to include economy, efficiency,</td>
<td>4.47</td>
</tr>
<tr>
<td>and effectiveness)</td>
<td></td>
</tr>
<tr>
<td>Consulting services by request</td>
<td>3.86</td>
</tr>
<tr>
<td>Follow up/verification of audit recommendations</td>
<td>4.43</td>
</tr>
</tbody>
</table>

Indicate the effectiveness of each phase of audit work based on how Internal Audit is currently conducting the phases.

<table>
<thead>
<tr>
<th>Phase of Audit</th>
<th>Avg Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey Phase – obtaining background information and developing the objective</td>
<td>4.36</td>
</tr>
<tr>
<td>of the audit.</td>
<td></td>
</tr>
<tr>
<td>Fieldwork Phase – meeting the objective of the audit as developed in the</td>
<td>4.18</td>
</tr>
<tr>
<td>survey phase.</td>
<td></td>
</tr>
<tr>
<td>Reporting Phase – communicating the results of the fieldwork (includes both</td>
<td>4.41</td>
</tr>
<tr>
<td>oral presentations and the written report).</td>
<td></td>
</tr>
</tbody>
</table>

Are you satisfied with the level of interaction that you have with the Internal Audit Director?
Yes 100%
No 0

Rate each attribute of the Internal Audit staff that you have met during the course of an audit (or other conditions that you have worked with them).

<table>
<thead>
<tr>
<th>Staff Attributes</th>
<th>Avg Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professionalism</td>
<td>4.82</td>
</tr>
<tr>
<td>Positive attitude</td>
<td>4.68</td>
</tr>
<tr>
<td>Knowledge of your operation</td>
<td>4.18</td>
</tr>
<tr>
<td>Objectivity</td>
<td>4.64</td>
</tr>
<tr>
<td>Ability to establish a position rapport</td>
<td>4.67</td>
</tr>
</tbody>
</table>
Do you feel comfortable sharing confidential or sensitive information with the internal auditors?

Yes 90%
No 10%

<table>
<thead>
<tr>
<th>Summary Questions</th>
<th>Avg Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>On a scale of “1” (low) to “5” (high), indicate your level of satisfaction with the management of the Internal Audit Department.</td>
<td>4.82</td>
</tr>
<tr>
<td>On a scale of “1” (low) to “5” (high), please give the Internal Audit Department an overall rating on how well we are meeting your needs.</td>
<td>4.59</td>
</tr>
</tbody>
</table>
## Section 1: Knowledge & Skill

<table>
<thead>
<tr>
<th>How would you rank your knowledge, skills, and/or understanding of the following:</th>
<th>Select ONE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excellent</td>
</tr>
<tr>
<td>1. Audit committee expectations</td>
<td>28.6%</td>
</tr>
<tr>
<td>2. Management expectations</td>
<td>28.6%</td>
</tr>
<tr>
<td>3. Corporate governance</td>
<td></td>
</tr>
<tr>
<td>4. Department’s mission and goals</td>
<td>71.4%</td>
</tr>
<tr>
<td>5. Department’s policies and procedures</td>
<td>57.1%</td>
</tr>
<tr>
<td>6. Relationships with auditing customers</td>
<td>42.9%</td>
</tr>
<tr>
<td>7. Internal auditing standards</td>
<td>28.6%</td>
</tr>
<tr>
<td>8. Knowledge of the organization operations and processes</td>
<td>14.3%</td>
</tr>
<tr>
<td>9. Documentation and review of systems or processes</td>
<td>14.3%</td>
</tr>
<tr>
<td>10. Evaluation of internal control</td>
<td></td>
</tr>
<tr>
<td>11. Objectivity and independence of internal auditors</td>
<td>42.9%</td>
</tr>
<tr>
<td>12. Audit risk</td>
<td></td>
</tr>
<tr>
<td>13. General auditing tools/techniques</td>
<td>14.3%</td>
</tr>
<tr>
<td>14. Current technology, equipment and software</td>
<td>14.3%</td>
</tr>
<tr>
<td>15. Information technology auditing tools/techniques</td>
<td>14.3%</td>
</tr>
<tr>
<td>16. Interviewing skills</td>
<td>14.3%</td>
</tr>
<tr>
<td>17. Performance audit</td>
<td>14.3%</td>
</tr>
<tr>
<td>18. Report writing</td>
<td>14.3%</td>
</tr>
</tbody>
</table>
## Section 2: Training

<table>
<thead>
<tr>
<th>Do you receive sufficient training through:</th>
<th>Select ONE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excellent</td>
</tr>
<tr>
<td>19. In-house Training Seminars: Specific Subjects</td>
<td>57.1%</td>
</tr>
<tr>
<td>20. In-house Training Seminars: Broad Topics</td>
<td>57.1%</td>
</tr>
<tr>
<td>21. Outside Seminars: Audit Topics</td>
<td>42.9%</td>
</tr>
<tr>
<td>22. Outside Seminars: Other</td>
<td>14.3%</td>
</tr>
<tr>
<td>23. Receiving specific training for auditing assignments</td>
<td>57.1%</td>
</tr>
<tr>
<td>24. On-the-job training</td>
<td>57.1%</td>
</tr>
<tr>
<td>25. Membership/participation in professional organizations</td>
<td>71.4%</td>
</tr>
</tbody>
</table>

## Section 3: Information

<table>
<thead>
<tr>
<th>Are you informed and enabled to:</th>
<th>Select ONE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excellent</td>
</tr>
<tr>
<td>26. Be objective and act independently</td>
<td>71.4%</td>
</tr>
<tr>
<td>27. Understand and apply to your Department’s core values</td>
<td>57.1%</td>
</tr>
<tr>
<td>28. Be empowered and self-accountable</td>
<td>71.4%</td>
</tr>
<tr>
<td>29. Be involved in audit planning</td>
<td>57.1%</td>
</tr>
<tr>
<td>30. Have input into individual audit scope</td>
<td>42.9%</td>
</tr>
<tr>
<td>31. Authorize changes to audit objectives and procedures</td>
<td>42.9%</td>
</tr>
</tbody>
</table>

## Section 4: Miscellaneous

<table>
<thead>
<tr>
<th>Provide your rating of the following:</th>
<th>Select ONE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Excellent</td>
</tr>
<tr>
<td>32. Ability to consult and partner with management</td>
<td>57.1%</td>
</tr>
<tr>
<td>33. Helpfulness of supervision to strengthen auditing work</td>
<td>71.4%</td>
</tr>
<tr>
<td>34. Satisfaction with performance review process</td>
<td>57.1%</td>
</tr>
<tr>
<td>35. Career satisfaction</td>
<td>57.1%</td>
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Appendix D – TYC Internal Audit Department Technology Strategy

**IA Purpose**
- Support the Board in fulfilling its oversight responsibilities.
- Partner with management to evaluate and improve the effectiveness of governance, risk management and control processes using a systematic and disciplined approach.
- Develop resources with broad and deep business knowledge and the ability to provide value-added information that enhances accountability and assists the agency in accomplishing its mission.

**Technology**

**Support**
- **IA Administration**
  - Develop a tool for auditing and communicating ideas within the Department.
  - Update tracking tools and administrative processes.
- **TeamMate**
  - Provide administrative and technical support promptly.
  - Leverage functions and features to support audit administration, work paper preparation, audit reporting, and data analysis.
  - Provide basic support to IA Department.
  - Provide knowledge base for IA Department.

**Cooperation**
- **IA Coordination with IRD**
  - Partner with Information Security to learn, apply, and advise on agency-wide standards.
  - Participate in IT Governance process to advise on risk management and controls.
  - Implement an Automated Audit Recommendation Tracking and Reporting application.

**IA Skills**
- **Technology Skills Assessment**
  - Assessment of current technology skill within the IA Department.
  - Listen to and address technology concerns from within the IA Department.
- **Development of Technology Skills**
  - Train auditors on the core competencies required for IT auditing.
  - Educate IA staff on the audit tools currently in use.

**Technology Enhancement**
- Coordinate with IRD to pilot business intelligence as it is developed (e.g., data extraction, self-reporting)
# Internal Audit Capability Model for the Public Sector
## TYC Internal Audit Department

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<tbody>
<tr>
<td>IA Recognized as Key Agent of Change</td>
<td>Leadership Involvement with Professional Bodies</td>
<td>Continuous Improvement in Professional Practices</td>
<td>Public Reporting of IA Effectiveness</td>
<td>Effective &amp; Ongoing Relationships</td>
<td>Independence, Power, &amp; Authority of the IA Activity</td>
<td></td>
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</tbody>
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<table>
<thead>
<tr>
<th>Level 4 – Managed</th>
<th>Services &amp; Role of IA</th>
<th>People Management</th>
<th>Professional Practices</th>
<th>Performance Management &amp; Accountability</th>
<th>Organizational Relationships &amp; Culture</th>
<th>Governance Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Assurance on Governance, Risk Management, &amp; Control</td>
<td>IA contributes to Management Development</td>
<td>Audit Strategy Leverages Organization's Management of Risk</td>
<td>Integration of Qualitative &amp; Quantitative Performance Measures</td>
<td>CAE Advises &amp; Influences Top-level Management</td>
<td>Independent Oversight of the IA Activity</td>
<td>CAE Reports to Top-level Authority</td>
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<tbody>
<tr>
<td>Advisory Services</td>
<td>Team Building &amp; Competency</td>
<td>Quality Management Framework</td>
<td>Performance Measures</td>
<td>Coordination with Other Review Groups</td>
<td>Management Oversight of the IA Activity</td>
<td>Funding Mechanisms</td>
</tr>
<tr>
<td>Performance /Value-for-Money Audits</td>
<td>Professionally Qualified Staff</td>
<td>Risk-based Audit Plans</td>
<td>Cost Information</td>
<td>Integral Component of Management Team</td>
<td>CAE Reports to Top-level Authority</td>
<td></td>
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<tr>
<td>Team Coordination</td>
<td></td>
<td>IA Management Reports</td>
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</tbody>
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<thead>
<tr>
<th>Level 2 – Infrastructure</th>
<th>Services &amp; Role of IA</th>
<th>People Management</th>
<th>Professional Practices</th>
<th>Performance Management &amp; Accountability</th>
<th>Organizational Relationships &amp; Culture</th>
<th>Governance Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Auditing</td>
<td>Individual Professional Development</td>
<td>Professional Practices &amp; Processes Framework</td>
<td>IA Operating Budget</td>
<td>Managing within the IA Activity</td>
<td>Full Access to the Organization’s Information, Assets, &amp; People Reporting Relationships Established</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Skilled People Identified &amp; Recruited</td>
<td>Audit plan Based on Management/Stakeholder Priorities</td>
<td>IA Business Plan</td>
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<tbody>
<tr>
<td>Ad hoc &amp; unstructured; isolated single audits or reviews of documents &amp; transactions for accuracy &amp; compliance; outputs dependent upon the skills of specific individuals holding the position; no specific professional practices established other than those provided by professional associations; funding approved by management, as needed; absence of infrastructure; auditors likely part of a larger organizational unit; no established capabilities; therefore, no specific key process areas.</td>
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<thead>
<tr>
<th>Status</th>
<th>Level 1 – Initial</th>
<th>Level 2 – Infrastructure</th>
<th>Level 3 – Integrated</th>
<th>Level 4 – Managed</th>
<th>Level 5 – Optimizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not In Progress</td>
<td>In Progress</td>
<td>Institutionalized (implemented)</td>
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Appendix E

Survey Tool

1. Do you conduct internal quality assessments of your internal audit activity?
   ☐ Yes
   ☐ No
   ☐ Planned for the future

2. What do your internal assessments include? (select all that apply)
   ☐ Comparison with peer audit groups
   ☐ Review of working papers
   ☐ Review of report content and format
   ☐ Client surveys
   ☐ Management surveys
   ☐ Stakeholder surveys/feedback
   ☐ Audit staff surveys
   ☐ Review/analysis of staff experience/capabilities
   ☐ Review of staff CPE
   ☐ Review of performance measures
   ☐ Evaluation of conformance with the Definition of Internal Auditing
   ☐ Evaluation of conformance with the Code of Ethics
   ☐ Evaluation of conformance with the Standards
   ☐ Other, please explain

3. Who is responsible for conducting your internal assessments?
   ☐ CAE
   ☐ Audit staff member dedicated to QA
   ☐ Audit manager/supervisor reviews
   ☐ Lead auditor/project manager
   ☐ Internal audit executive independent of the department
   ☐ Contractor/consultant
   ☐ Other, please explain

4. How often are internal assessments conducted?
   ☐ Annually
   ☐ Semiannually
   ☐ Quarterly
   ☐ In preparation for an External Assessment
   ☐ Other, please explain
5. Who receives the results of your periodic internal assessments?
   □ Senior Management
   □ Board/Audit Committee
   □ CAE
   □ External auditor
   □ Oversight entities
   □ Other, please explain

6. Have the results of your internal quality assessments indicated any non-conformance with the Definition of Internal Auditing, the Code of Ethics, and/or the Standards?
   □ Yes
   □ No
   If yes, which Standard(s) was/were your audit activity in nonconformance?

7. Do your audit reports state that your internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing?
   □ Yes
   □ No

8. What is the most important value received by your internal audit function from doing internal assessments?
   □ Conformance with Standard 1311
   □ Improved internal audit processes
   □ Improved report content and format
   □ More consistency in approach by audit staff
   □ Training opportunities
   □ Other

9. Do you maintain evidence of ongoing evaluation of the internal audit activity (emails, surveys, supervisory notes, notes of discussions with auditees, reports on specific performance criteria, etc.)
   □ Yes
   □ Sometimes
   □ No
   □ Planned for the future

10. How often do you hold performance improvement meetings with internal audit staff?
    □ Annually
    □ Periodically throughout the year
    □ With each completed audit assignment
    □ As needed
    Other, please explain
11. How often are staff training needs evaluated?
   - Annually
   - Periodically
   - As needed
   - Other, please explain

12. How are staff training needs documented?
   - Annual performance appraisal/employee development plan
   - Periodically
   - As needed
   - Other, please explain

13. Do you have a formal QAIP function?
   - Yes
   - No
   - Planned for the future

14. What metrics have been developed to measure the internal audit activity?
   - Percentage of Audit Plan projects completed
   - Percentage of overall time spent on assurance and consulting activities
   - Results of client satisfaction surveys
   - Results of external quality assurance review
   - Percentage of audit staff with professional certifications
   - Percentage of audit staff meeting CPE requirements
   - Responsiveness to Board and Audit Committee requests
   - Leadership in providing information on governance, risk and controls
   - Annual performance appraisal of CAE
   - Planned for the future
   - Other, please explain

15. To whom are the results reported? (select all that apply)
   - Board/Audit Committee
   - Senior Management
   - Internal Audit staff
   - External auditor
   - Oversight entities
   - Other, please explain

16. Do you adjust the audit activity’s operations based on results of performance measures and/or results of the internal quality assessments?
   - Yes
   - No
17. Has the Internal Audit Department received an External Quality Assurance Review?
   □ Yes
   □ No
   □ Planned for the future
   If yes, what year was the most recent review completed?

Demographics

18. How many staff members are in the Internal Audit Department?
   □ 1 – 5
   □ 6 – 10
   □ 11 – 20
   □ 21 – 50
   □ > 50

19. What is your industry?
   □ For profit
   □ Non-profit
   □ Federal government
   □ State government
   □ Local government
   □ College or university
   □ Other, please explain

20. What is your leadership structure? (select all that apply)
   □ Governing Board or Commission
   □ Governing Board or Commission with Audit Committee
   □ Elected Official(s)
   □ CEO/President
   □ Deputy CEO/Chief Operating Officer/CFO
   □ Other (please explain)

21. What were your organization’s revenues for fiscal year 2011? (annual budget for public sector and non-profit entities)
   □ <$100 million
   □ $100 million - $500 million
   □ $500 million - $1 billion
   □ > $1 billion
22. What country is the headquarters of your organization located in?

- Algeria
- Argentina
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bangladesh
- Barbados
- Belgium
- Bermuda
- Bolivia
- Bosnia & Herzegovina
- Botswana
- Brazil
- Bulgaria
- Cameroon
- Canada
- Caribbean
- Cayman Islands
- Chile
- China
- Chinese Taiwan
- Colombia
- Congo
- Costa Rica
- Croatia
- Curacao
- Cyprus
- Czech Republic
- Denmark
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Estonia
- Ethiopia
- Fiji
- Finland
- France
- Georgia
- Germany
- Ghana
- Greece
- Guatemala
- Guyana
- Haiti
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Israel
- Italy
- Ivory Coast
- Jamaica
- Japan
- Kenya
- Korea, Republic of
- Latvia
- Lebanon
- Lesotho
- Lithuania
- Luxembourg
- Malawi
- Malaysia
- Mali
- Mauritius
- Mexico
- Montenegro
- Morocco
- Mozambique
- Netherlands
- New Zealand
- Nicaragua
- Nigeria
- Norway
- Oman (of Sultanate)
- Pakistan
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Philippines
- Poland
- Portugal
- Puerto Rico
- Qatar
- Romania
- Russia
- Saudi Arabia
- Senegal
- Serbia
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sri Lanka
- Swaziland
- Sweden
- Switzerland
- Tanzania
- Thailand
- Trinidad & Tobago
- Tunisia
- Turkey
- Turks & Caicos
- Uganda
- Ukraine
- United Arab Emirates
- United Kingdom & Ireland
- United States of America
23. Organization Name (optional):

If selected, would you agree to provide the research team an outline of your internal assessment process and documents?

☐ Yes
☐ No

24. Contact information (optional but needed if selected to request documentation)
   Name:
   Phone:
   Email: