



STATE OF WISCONSIN  
Department of Employee Trust Funds  
Robert J. Conlin  
SECRETARY

801 W Badger Road  
PO Box 7931  
Madison WI 53707-7931

1-877-533-5020 (toll free)  
Fax (608) 267-4549  
<http://etf.wi.gov>

## CORRESPONDENCE MEMORANDUM

**DATE:** November 11, 2013  
**TO:** Audit Committee Members  
**FROM:** John Vincent, Director  
Office of Internal Audit  
**SUBJECT: External Quality Assessment Review**

**This report is for Audit Committee review and discussion. No action is required.**

The Office of Internal Audit (OIA) secured the services of an independent internal audit consultant to conduct an external quality assessment review (QAR) to measure OIA's conformance with the following auditing standards. The QAR was the first assessment conducted by the Department of Employee Trust Funds (ETF) since the internal audit function was established in July 1985. It was the opinion of the independent assessor that ETF's internal audit function partially conforms to these standards. Attached is the final QAR report.

- International Standards for the Professional Practice of Internal Auditing,
- Government Auditing Standards, and
- The Institute of Internal Auditors Code of Ethics

The results from the QAR provide significant opportunities for OIA to more fully conform to the standards and provide enhanced services to ETF executive management and the Audit Committee.

I will be available at the Audit Committee meeting to answer any questions.

Attachment: A) ETF QAR Cover and Transmittal Letter  
B) ETF QAR Report

Reviewed and approved by Robert J. Marchant, Deputy Secretary

Electronically Signed 11/14/13

| Board | Mtg Date | Item # |
|-------|----------|--------|
| AUD   | 12.05.13 | 5      |

**REPORT ON THE  
EXTERNAL QUALITY ASSESSMENT REVIEW  
OF THE  
DEPARTMENT OF EMPLOYEE TRUST FUNDS  
OFFICE OF INTERNAL AUDIT**



**October 2013**

**PERFORMED BY**

David J. MacCabe, CIA, CGAP, CRMA, MPA  
Internal Audit Consultant

**David J. MacCabe, CIA, CGAP, MPA**  
**Internal Audit Consultant**  
**2708 Kerrybrook Lane**  
**Austin, TX 78757-6914**  
**(512)-567-1593**

October 8, 2013

Mr. John Vincent, Director  
Office of Internal Audit  
Department of Employee Trust Funds  
801 West Badger Road  
Madison, WI 53713-2526

Re: External Quality Assessment Review

Dear Mr. Vincent:

Attached for your information is the final report of the external quality assessment review of the Office of Internal Audit (OIA) of the Department of Employee Trust Funds (ETF).

I appreciate your efforts in preparing for this external peer review. In my opinion, the ETF Internal Audit function partially conforms to the *International Standards for the Professional Practice of Internal Auditing*, *Government Auditing Standards* and the *IIA Code of Ethics*.

This opinion means that there are significant opportunities for improvement in effectively applying the *Standards* and/or achieving OIA objectives. The accompanying report provides observations from the review that can assist the OIA achieve full conformance with the *Standards*.

Thank you for the courtesy and assistance provided by you and ETF management and staff members during this review. Please let me know if I can provide further information.

Sincerely,

David J. MacCabe, CIA, CGAP, CRMA, MPA  
Internal Audit Consultant

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## EXECUTIVE SUMMARY

An external quality assessment review of the Office of Internal Audit (OIA) at the Department of Employee Trust Funds (ETF) was conducted during the period September 30-October 3, 2013. The principal objectives of the quality assessment were:

- To assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*;
- To evaluate the OIA's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of the ETF Secretary and the Audit Committee Chair, and
- To identify opportunities to enhance OIA management and work processes, as well as its value to ETF.

## OPINION AS TO CONFORMANCE WITH STANDARDS

Based on the information received and evaluated during this external quality assessment review, it is my overall opinion that the Department of Employee Trust Funds (ETF) Office of Internal Audit (OIA) **partially conforms** with the Institute of Internal Auditors (IIA) Professional Practices Framework including:

- the *International Standards for the Professional Practice of Internal Auditing*,
- the Definition of Internal Auditing, and
- the Code of Ethics.



The IIA's *Quality Assessment Manual* suggests a scale of three ratings:

- “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance to the *Standards*.
- **“Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing their responsibilities in an acceptable manner.**
- “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Interviews conducted during the quality assessment review indicate that executive management and the Audit Committee Chair consider OIA an integral part of ETF operations and believe that the audit process and audit report recommendations add value and help improve the agency's operations.

The reviewer identified several opportunities for improvement that will assist OIA in more fully conforming to *Standards* and providing enhanced services to ETF executive management and the Audit Committee.

## ACKNOWLEDGEMENTS

I appreciate the courtesy and cooperation extended to me by the OIA director, the Audit Committee Chair, the Secretary, and the executive and operating managers who participated in the questionnaire and interview processes. The feedback provided valuable information regarding the OIA function and its relationship with ETF management, staff, and the Board Audit Committee.

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David J. MacCabe, CIA, CGAP, CRMA, MPA  
Quality Assessment Reviewer

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Date

## BACKGROUND

### Agency Profile

The Department of Employee Trust Funds (ETF) was created in 1967 and is responsible for administering retirement and other benefit programs for almost 1,500 state and local government employers with active and retired employees and retirees who participate in the Wisconsin Retirement System. The organization's mission statement is "To develop and deliver quality benefits and services to our customers while safeguarding the integrity of the Trust."

ETF currently has approximately 260 employees serving over 575,000 active and inactive employees and retired members. There are five Boards associated with ETF. The Boards set policy and review the overall administration of the benefit programs provided for state and local government employees.

### Internal Audit History

The Office of Internal Audit (OIA) was initially established in July 1985 and has evolved over the years. With the retirement of the longtime internal audit director, the function was combined with the Budget Office from 2006-2008. OIA was reestablished in December 2008 as a separate office with the appointment of an experienced ETF manager to serve as director.

A Board Audit Committee was formed in December 2008 and an *Audit Committee Charter* was developed and implemented. An *Internal Audit Charter* was developed and approved in February 2009. OIA is now staffed with the director and three professional internal auditors. The OIA director is a member of the Secretary's leadership team and regularly attends ETF Board activities and various management meetings.

The OIA is committed to more fully understanding and conforming to the *IIA Standards* and the current external quality assessment is part of that quality improvement effort. Although valuable progress has been made in establishing the OIA during the past five years, further work remains to position the function as a full-scale internal audit function that fully conforms with professional standards and contributes more fully to the ETF accountability and governance structure.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the external quality assessment review was to review OIA's conformance to the IIA's *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics*.

The review focused primarily on OIA work performed during the period July 1, 2011 through June 30, 2013. The work was conducted during the period September 30-October 3, 2013 generally using the methodology in the IIA *Quality Assessment Manual*. The scope of the review included:

- Comparing the OIA's audit practices with relevant sections of the professional internal auditing standards;
- Reviewing the Internal Audit Charter and the Audit Committee Charter for conformance to professional internal auditing standards;
- Validating the IAF's process for assuring auditor objectivity and independence;
- Reviewing the OIA director's interactions and business relationships with the ETF Secretary, the Audit Committee members, and management;
- Reviewing the position description and the performance evaluation process for the OIA director and staff internal auditors;
- Reviewing continuing professional education (CPE) earned by the OIA director and internal auditors to ensure compliance with professional auditing standards;
- Reviewing the OIA's procedures for administering and tracking CPE;
- Assessing the effectiveness of the OIA's Quality Assurance and Improvement Program (QAIP);
- Reviewing and analyzing 16 questionnaire surveys completed by the Audit Committee Chair, 12 ETF executive and operating managers, and three Internal Audit staff members;
- Interviewing the Audit Committee Chair and five ETF executive managers: the ETF secretary, deputy secretary, the DRS administrator, the DMS administrator, and the DIS deputy administrator;
- Interviewing the OIA director and the three internal auditors;
- Reviewing OIA's process and procedures for developing the risk assessment and communicating with management and the Audit Committee requesting input for the *Biennial Audit Plan*;
- Reviewing OIA's policies and procedures pertaining to the audit engagement process and communications through the audit project phases of planning, field work, and reporting;
- Reviewing two sets of engagement work papers of audits completed during the period of review for conformance to professional internal auditing standards;



- Reviewing five additional audit reports issued during the period of review for conformance to professional internal auditing standards; and
- Providing examples of leading practices found in other internal audit activities including public pension funds, government agencies, and private sector entities.

## COMMENDABLE AREAS

During the course of the review, we observed these commendable areas within the OIA:

- The OIA was reorganized and reestablished in December 2008 after a period of decline and has built and developed relationships with ETF management and the Audit Committee that help strengthen ETF governance, accountability, and the overall control environment.
- The OIA regularly provides input and suggestions to management on proposed policies and procedures. The overall impact has been to assist management in strengthening controls and reducing business risks to the organization and the trust funds.
- The OIA serves in an advisory capacity on some ETF committees and workgroups including the ETF Security Council, the Affirmative Action Committee, and the Risk Management Monitoring Team in connection with ETF's major initiative to replace the current benefit administration system.



## **SUMMARY OBSERVATIONS AND RECOMMENDATIONS**

I concur with three opportunities for improvement identified in the OIA director's self-assessment report and this report will include some additional observations and recommendations.

The following recommendations will assist the OIA in more fully conforming to the IIA *Standards* and providing enhanced services to ETF:

- Revise the *Internal Audit Charter* to Include Additional Requirements of the *IIA Standards* (pages 8-9)
- Conduct External Quality Assessment Reviews at Least Once Every Five Years (page 9)
- Continue Efforts to Prioritize the Development of the Internal Audit Procedures Manual (page 9)
- Consider the Future OIA Reporting Relationship to Better Ensure Organizational Independence (pages 10-11)
- Develop a More Complete Quality Assurance and Improvement Program (QAIP) and Provide an Annual Report on QAIP Efforts (page 12 )
- Enhance Professional Proficiency and the Achievement of Continuing Professional Education Requirements (pages 12-13)
- Further Enhance the Risk Assessment Process That Provides Major Input to the Biennial Audit Plan Development (pages 13-14)
- Provide Further Information and Education about OIA's Role and Responsibilities (pages 14-15)
- Develop, Track, and Report on Internal Audit Performance Metrics (pages 15-16)
- Enhance the Planning Process for Audit Engagements (pages 16-17)
- Enhance the Performance of Audit Engagements (pages 17-18)
- Enhance the Process for Communicating the Engagement Results (pages 18-19)
- Enhance Efficiency and Effectiveness Through the Use of Automated Software (page 19)

## DETAILED RESULTS

The detailed results are organized in three sections:

- I. Comments on Observations Noted in the OIA's Internal Self-Assessment Report
- II. Observations for Consideration and Possible Action by the ETF Secretary and the Board Audit Committee
- III. Observations for Consideration and Possible Action by the OIA Director

### **I. COMMENTS ON OBSERVATIONS NOTED IN THE OIA'S INTERNAL SELF-ASSESSMENT REPORT**

#### **1. Revise the *Internal Audit Charter* to Include Additional Requirements of the *IIA Standards***

The ETF *Internal Audit Charter* was initially developed in February 2009 and has not been revised since that time. Although it includes some of the important aspects required by professional auditing standards, some key additions are recommended.

The OIA director should coordinate the development of a revision to the *Internal Audit Charter* to incorporate additions and terminology contained in the IIA's *International Professional Practices Framework* (revisions effective in 2009, 2011 and 2013) to include:

- Direct references to the *Definition of Internal Auditing* and the definitions of assurance services and consulting services (IIA Standard 1010, 1000.A1, and 1000.C1);
- The requirement to maintain an effective quality assurance and improvement program to include supervision, training, internal quality assessments, and external quality assessments (IIA Standard 1300);
- The requirement to report on the Quality Assurance & Improvement Program on an annual basis (IIA Standard 1320);
- Description of the independence provided by the functional and administrative reporting relationships (the revised IIA Standard 1000 Interpretation); and
- The requirement to confirm to the Audit Committee, at least annually the organizational independence of the internal audit activity (IIA Standard 1110).

There also may be some benefit to incorporating additional elements of charter models from The IIA and other leading public pension funds into the EFT *Internal Audit Charter*.

*Internal Audit Response:*

*The OIA director agrees with the recommendation to revise the Internal Audit Charter to incorporate additions and terminology contained in the revised Standards to the IIA's International Professional Practices Framework. Target date is December 5, 2013.*

**2. Conduct External Quality Assessment Reviews at Least Once Every Five Years**

Standard 1312 requires that internal audit activities be reviewed at least every five years by a qualified, independent assessor or assessment team from outside the organization. The current external review is the first one conducted in the more than 28-year history of the OIA.

The OIA director identified this opportunity for improvement in his self-assessment review. This is an important professional standard that should be followed in the future.

*Internal Audit Response:*

*The OIA director will revise the Internal Audit Charter to require an external QAR at least once every five years. Target date is December 5, 2013.*

**3. Continue Efforts to Prioritize the Development of the Internal Audit Procedures Manual**

Standard 2040 requires that the OIA director establish policies and procedures to guide the audit activity. Prior editions of the procedures manual are obsolete and priority has been given to presenting a revised version for presentation to the Audit Committee in December.

The OIA director identified this opportunity for improvement in his self-assessment review. It is noteworthy for further emphasis as the procedures manual represents the OIA director's general and specific guidance to OIA staff members on methods, techniques, and procedures to use in conforming to professional standards.

*Internal Audit Response:*

*The OIA director will maintain a top priority for the development of the IA Manual that reflect the director's general and specific guidance to conform to professional standards. Target date is March 27, 2014.*

## **II. OBSERVATIONS FOR CONSIDERATION AND POSSIBLE ACTION BY THE ETF SECRETARY AND THE BOARD AUDIT COMMITTEE**

### **1. Consider the Future OIA Reporting Relationship to Better Ensure Organizational Independence**

Standard 1110 states “The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.”

The OIA was reestablished almost five years ago as noted in the Internal Audit History section on page 4 of the validation report. The current validation quality assurance review is an important step in moving the internal audit function forward in its goal to more fully conform to professional standards.

During the same five year period an Audit Committee was formed and in more recent years information and educational materials on OIA oversight responsibilities have been provided to the Committee members. The OIA director currently reports to the ETF Secretary who is the chief executive officer for the organization. That has been an effective relationship as both the OIA and the Audit Committee have continued to mature in their respective roles.

The Interpretation to Standard 1110 states “Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter;
- Approving the risk-based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the chief audit executive;
- Approving the remuneration of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.”

It is noted that several of the examples cited above are already in place with the Audit Committee. Key stakeholders in this organizational placement decision seem to be aware that ultimately the ideal reporting relationship is for the OIA director to report functionally to the Audit Committee and administratively to the Secretary. Such a reporting relationship is a leading business practice and is found in many public pension funds in the United States and Canada.

The Secretary, the Audit Committee, and the full Board should consider this issue and determine if and when such action is in the best interests of ETF.

*Comment: This observation is submitted for consideration and possible action by the ETF Secretary and the Board Audit Committee.*

### **III. OBSERVATIONS FOR CONSIDERATION AND POSSIBLE ACTION BY THE OIA DIRECTOR**

#### **1. Develop a More Complete Quality Assurance and Improvement Program (QAIP) and Provide an Annual Report on QAIP Efforts**

The OIA has a quality improvement effort consisting of these important elements:

- diligence in performing audit engagements,
- ongoing monitoring and supervision, and
- an internal self-assessment review was conducted by the OIA director in preparation for this external quality assessment review.

IIA Standard 1311 requires that the audit director oversee periodic self-assessments or arrange for assessments by other persons within the organization with sufficient knowledge of internal auditing.

IIA Standard 1320 requires that QAIP results be communicated to senior management and the board at least annually. This can be accomplished with an annual QAIP report to the Secretary and the Audit Committee providing information on the quality improvement efforts completed during the prior year.

*Internal Audit Response:*

*The OIA director agrees with the recommendation and will incorporate into the biennial audit plan that the audit director will ensure compliance with the IIA Standard 1311. Target date is December 5, 2013.*

*In addition, the OIA director will plan and develop a more complete QAIP and provide an annual report to the ETF leadership and audit committee, at least once per year. Target date is March 27, 2014.*

#### **2. Enhance Professional Proficiency and the Achievement of Continuing Professional Education Requirements**

Standard 1210 requires “Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.” A similar requirement exists for the internal audit activity as a whole.

All OIA staff members should obtain at least 40 hours professional development education each year. There was evidence of OIA staff attendance at various training and development activities sponsored by local professional auditing organizations and the Association of Public Pension Fund Auditors. However, the master record of training attended did not provide sufficient details for the validator to assess whether or not auditors received the standard minimum target of 40 hours continuing professional education each year.

Further, the OIA library could be significantly enhanced by the acquisition of more current internal auditing, accounting, information technology, and pension fund reference books and publications. In addition, only one member of the OIA has a professional certification in the internal audit, information technology, or accounting areas. OIA staff members should be encouraged to pursue professional certifications such as the Certified Internal Auditor, Certified Information Systems Auditor, and Certified Government Audit Professional designations.

*The OIA director agrees with the recommendation and will develop an internal audit continuous education and staff development program to enhance staff capabilities. The program will include a comprehensive skills assessment to identify gaps and training opportunities, encouragement of staff to pursue professional certifications, opportunities for staff to obtain at least 40 hours of professional development education each year and to enhance the OIA library to ensure currency of reference books and publications. Target date is January 11, 2014.*

### **3. Further Enhance the Risk Assessment Process That Provides Major Input to the Biennial Audit Plan Development**

Standard 2010 requires “The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.”

OIA has an effective process for assessing business risks in determining the specific assurance and consulting engagements to be included in the *Biennial Audit Plan*. The process includes identifying and measuring risks, obtaining input from ETF management in prioritizing risks, selecting and developing areas for audit, and obtaining approval from the Secretary and the Audit Committee.

Current risk factors considered include severity/significance, complexity, internal controls, information technology controls, change, and time since last review.

The risk assessment process could be enhanced by the following actions:

- Consider adding additional risk factors such as fraud exposure and known risks;
- Consider adding audit coverage to functional areas that have received few audits in recent years (some areas of the Division of Management Services, the Division of Insurance Services, and the Office of Budget and Trust Finance);
- Consider conducting IT audits in areas such as IT governance and the systems development life cycle;
- Consider obtaining authorization and funding to contract for specialty auditor skills in more complex audit areas for outsourcing or co-sourcing some audit engagements;
- Define the universe of auditable activities within ETF (this can be developed by listing ETF organizational units and key sections or business processes contained within);



- Prepare a 5-year analysis of audits completed by year for each of the auditable activities. Include OIA assurance and consulting engagements, Legislative Audit Bureau audits, contract audits, and other pertinent audits, reviews, and studies;
- Use the resulting analysis to factor conditions such as (1) no prior audit coverage, and (2) gaps in audit coverage into risk assessment considerations.

*Internal Audit Response:*

*The OIA director believes the suggested enhancements would contribute to the effectiveness of the risk assessment and audit plan development process, the alignment of the audit/consulting services with ETF's business objectives, and assist with focusing resources. The OIA director will present an action plan to the ETF Secretary and the Audit Committee. Target date is March 27, 2014.*

#### **4. Provide Further Information and Education about OIA's Role and Responsibilities**

OIA plays an important role in ETF's governance and accountability structure that is not clearly understood by management and staff. The results from management surveys and interviews indicated that some employees have a limited understanding of Internal Audit's role and responsibilities and would welcome more regular information and communications.

The OIA director already provides an overview of the internal audit function at new employee orientation sessions. Managers indicated a desire to learn more about the OIA function and have more opportunities to meet with the OIA director and staff. Among the suggestions offered were more frequent face-to-face meetings, brown bag seminars, and establishing a presence and providing audit-related information on the ETF Intranet.

Efforts to broaden communication and understanding of Internal Audit's important role and responsibilities can contribute to a stronger ETF control environment. Further marketing the internal audit function could nurture and enhance effective working relationships with ETF business partners.

*Internal Audit Response:*

*The OIA director agrees with the need to broaden an understanding of the Internal Audit function, role and responsibilities by initiating the following during FY14:*

- *Contact the boards of managers and supervisors to be on the agenda at least two times per year to provide an update on OIA activities, discuss the status of the Audit Plan, provide educational topic regarding OIA's roles and responsibilities, and to seek input and feedback on OIA activities. Target date is November 4, 2013.*
- *Expand the current quarterly meetings with the division administrators to include office directors. Target date is January 6, 2014.*
- *Contact division/office leadership about attending staff meetings on a semi-annual basis to provide an update on OIA activities, discuss the status of the*

*Audit Plan, and seek input on current risks or feedback on OIA activities. Target date is January 6, 2014.*

- *Work with the ETF training director to create a brown bag seminar on the OIA function and with the Communications director on periodic articles in the Trusty News. Target date is December 13, 2013.*

## **5. Develop, Track, and Report on Internal Audit Performance Metrics**

Standard 2060 requires “The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.”

The OIA should work with the ETF Secretary and the Audit Committee in identifying, tracking, and reporting key performance metrics to illustrate the value-added component of the activity. The formalization and use of performance measures are ongoing practices among many leading Internal Audit activities and performance is typically reviewed during the annual performance evaluation process.

Additional formalization and tracking of key performance metrics could also provide further information of interest to the Audit Committee. Some examples of commonly used Internal Audit performance measures with representative dates added are listed below:<sup>1</sup>

- Completion of 90% of the projects included in the Biennial Audit Plan
- Executive management satisfaction survey results
- Audit Committee/Board satisfaction survey results
- Complete development and obtain approval of the proposed or revised Biennial Audit Plan by June 30, 2014
- Complete 80-85% of projects identified in the Biennial Audit Plan
- Spend a minimum of 70% of total available hours on direct assurance, consulting, and advisory services
- Obtain at least 40 hours of continuing professional education each year for each auditor
- Obtain management acceptance on at least 80% of audit issues and/or recommendations
- Follow-up and report on open audit issues and recommendations at Audit Committee meetings twice each year
- Implement 100% of external quality assurance review recommendations by April 1, 2014.

*Internal Audit Response:*

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<sup>1</sup> Internal Audit performance metrics used and quantitative goals set vary widely among leading Internal Audit functions.

*The OIA director agrees with the recommendation and will ensure that key performance measures with representative dates are established from discussions with the ETF Secretary and the Audit Committee. In addition, regular updates on the performance measures will be discussed with the ETF Secretary and the Audit Committee. Target date is March 27, 2014.*

## **6. Enhance the Planning Process for Audit Engagements**

Standard 2200 states “The chief audit executive must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing, and resource allocations.”

Standard 2210.A1 requires “Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement results must reflect the results of this review.”

There are opportunities to improve audit analysis, documentation, and conformance with the specific assurance standards and the related practice advisories for engagement planning. The following are among the practices currently in place in varying degrees but recommended for further refinement and clear documentation in the audit workpapers:

- Documentation of the considerations in planning the engagement such as the activity’s objectives, the significant risks, the adequacy and effectiveness of the activity’s governance and risk management processes (Standard 2201);
- The establishment of engagement objectives by conducting a preliminary risk assessment at the engagement level to include the probability of significant errors, fraud, and noncompliance, and other potential exposures (Standard 2210);
- The scope of the engagement must be sufficient to achieve the engagement objectives. Consideration must be given to including relevant systems records, personnel, and physical properties (Standard 2220); and
- Engagement work programs must include the procedures for identifying, analyzing, evaluating, and documenting information obtained during the engagement (Standard 2230).

The use of checklists and special forms will better ensure adherence to professional standards and more consistent documentation in the audit work papers. The current OIA initiative to produce a more comprehensive Internal Audit Procedures Manual should be instrumental in moving OIA forward.

Among the useful forms and checklists that could be considered for refinement or establishment are the following

- Project assignment message;
- Engagement announcement message;
- Entrance conference agenda format;

- Engagement risk assessment format;
- Planning memorandum format;
- Audit program format;
- Entrance conference message; and
- Planning phase checklist.

*Internal Audit Response:*

*The OIA director agrees with the recommendation and will review and revise the engagement planning approach and methodology to ensure adherence to professional standards and to ensure consistency with the planning, management, conducting and reporting of audit engagements, as included in the recommendations. Established processes will be included in the new comprehensive Internal Audit Procedures Manual, and will be updated as necessary to maintain compliance. Target date is March 27, 2014.*

## **7. Enhance Performance of Audit Engagements**

Standard 2300 requires “Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.”

As with the prior observation regarding the prior audit phase, there are opportunities to improve current practices to better conform to the specific assurance standards and the related practice advisories for performing the engagement. The following are among the practices currently in place in varying degrees but recommended for further refinement and clear documentation in the audit workpapers:

- The identification of sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives (Standard 2310);
- Appropriate analyses and evaluations are used as the basis for conclusions and engagement results (Standard 2320);
- Relevant information is documented by auditors to support the conclusions and engagement results (Standard 2330); and
- Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is guided and developed (Standard 2340).

Again as stated in the previous observation, the use of checklists and special forms will better ensure adherence to professional standards and more consistent documentation in the audit work papers. The current OIA initiative to produce a more comprehensive Internal Audit Procedures Manual should be instrumental in moving OIA forward.

Among the useful forms and checklists that could be considered for refinement or establishment are the following

- Field work analysis work paper format;
- Condition worksheets listing condition, criteria, cause, effect, and recommendation;
- Field work summary format;

- Exit conference agenda format; and
- Field work phase checklist.

*Internal Audit Response:*

*The OIA director agrees with the recommendation and will assess and revise current engagement practices to ensure compliance with assurance standards, as identified in the recommendations. Established processes will be included in the new comprehensive Internal Audit Procedures Manual, and will be updated as necessary to maintain compliance. Target date is March 27, 2014.*

## **8. Enhance the Process for Communicating the Engagement Results**

Standard 2400 states “Internal auditors must communicate the results of audit engagements.” Standard 2410 further requires “Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.”

As with the prior observations regarding other audit phases, there are opportunities to improve current practices to better conform to the specific assurance standards and the related practice advisories for communicating the engagement results. The following are among the practices currently in place in varying degrees but recommended for further refinement and clear documentation in the audit workpapers:

- Ensure communications are accurate, objective, clear, concise, constructive, complete, and timely (Standard 2420);
- Report that the engagements were conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support the statement (Standard 2430);
- When nonconformance with the Definition of Internal Auditing, the Code of ethics, or the *Standards* impacts a specific engagement, follow the guidance contained in Standard 2431;
- Communicate the results to the appropriate parties (Standard 2440); and
- When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information (Standard 2450).

Again as stated in the two previous observations, the use of checklists and special forms will better ensure adherence to professional standards and more consistent documentation in the audit work papers. The current OIA initiative to produce a more comprehensive Internal Audit Procedures Manual should be instrumental in moving OIA forward.

Among the useful forms and checklists that could be considered for refinement or establishment are the following

- Report outline format;

- Executive summary format;
- Final report format;
- Quality control review checklist; and
- Reporting phase checklist.

*Internal Audit Response:*

*The OIA director agrees with the recommendation and will review and revise the communications methodology to ensure adherence to professional standards and to ensure consistency with the planning, management, conducting and reporting of audit engagements, as included in the recommendations. Established processes will be included in the new comprehensive Internal Audit Procedures Manual, and will be updated as necessary to maintain compliance. Target date is March 27, 2014.*

**9. Consider Enhancing Efficiency and Effectiveness Through the Use of Automated Software**

Standard 2300 requires “Internal auditors must document relevant information to support the conclusions and engagement results.”

The use of an electronic workpaper software package that enforces the audit methodology in a systematic manner is a leading internal audit practice that supports consistency, quality, and due professional care when performing audit engagements. Electronic workpapers facilitate changes to methodology, enforce supervisory review and ongoing quality assurance mechanisms, allow for multiple users of templates and documents, provide for electronic backup and storage of documents, and generally drive consistency and efficiency in the audit process.

*Internal Audit Response:*

*The OIA director agrees with the recommendation and will initiate and complete a review and assessment of electronic workpaper software packages that would enhance the efficiency, effectiveness and consistency of the audit process, as included in the recommendation. Target completion date is May 2, 2014.*