

# Self-Assessment Quality Assurance of Internal Audit

Internal Audit Report

March 23, 2023



**Orange County  
Public Schools**

Internal Audit

**To:** Linda J. Lindsey, CPA, CGAP, School Board Internal Auditor

**From:** Phillip Vincent, CIA, Senior Internal Auditor

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## EXECUTIVE SUMMARY

### Why Internal Audit Did This Self-Assessment

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

This self-assessment quality assurance audit was included in 2022-2023 Annual Audit Plan.

### What the Self-Assessment Found

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

- Implementation of the principles promulgated by the IIA,
- Quality of work,
- Automated work papers and documentation,
- Tracking of audit recommendations,
- Follow-up processes and management actions,
- Experienced auditor team and their professionalism,
- Strong leadership,
- Establishment of effective policies and procedures, and

- Effective communication and reporting practices.

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

### What the Self-Assessment Recommended

A few opportunities for continuous improvement were identified, to enhance the department's effectiveness and efficiency and allow the Internal Audit activity to build upon the value it already brings to the organization.

- Continue to ensure that workpapers include headings, audit period, source, purpose, date, auditor's initials, and final reviewer's initials on each work paper.
- Continue to ensure that links to electronic documents are functioning as intended.
- Continue to ensure that risks tested in fieldwork match the risks listed in planning, and be sure to rate inherent risks.
- Consider adding specific language, designed to comply with Standard 2201, as additional objectives to each audit:
  - "To identify opportunities for improvement to governance, risk management, and control.
  - To identify any cost savings."

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

**BACKGROUND:**

Credibility with stakeholders is critical to an internal audit activity. Providing credible assurance, and value-added recommendations, requires professionalism. Professionalism, in turn, requires conformity to a set of professional standards. Orange County Public Schools (OCPS) Internal Audit Department conforms with the International Professional Practices Framework (IPPF), promulgated by the Institute of Internal Auditors (IIA). Conformity to the IPPF ensures the Internal Audit Department provides objective assurance to audit committee members, the School Board, and senior management with regard to OCPS' governance, risk management, and control processes.

The IPPF is

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

The IPPF has two components:

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

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

*Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

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

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

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

**OBJECTIVES, SCOPE, AND METHODOLOGY:**

**Objectives**

To evaluate conformity to the *International Standards for the Professional Practice of Internal Auditing* (the *Standards*) and the Code of Ethics issued by the Institute of Internal Auditors (The IIA) and to our own department policies and procedures. This self-assessment also sought to identify opportunities for continuous improvement to enhance the effectiveness, efficiency, and the value of the Internal Audit Department.

**Scope**

Our last external peer review covered the period from October 1, 2016 to September 30, 2021. This self-assessment review examined internal audit work performed since the last external peer review for the period from October 1, 2021 through December 31, 2022.

**Methodology**

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

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

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

- The Chief Audit Executive (CAE) completed a questionnaire, and other relevant quality assurance information from the Manual, addressing Internal Audit Governance, Internal Audit Staff, Internal Audit Management, and the Internal Audit Process.

- Surveys completed by representatives of the Audit Advisory Committee, Executive Leadership and Operating Management, the School Board Internal Auditor, and Internal Audit staff were reviewed and used in the self-assessment.
- The Internal Audit Procedures Manual (revised July 2022), Internal Audit Charter, Audit Committee Charter, reporting relationships, and communications processes with executive management, the Audit committee, and the Board were reviewed.
- Workpapers, audit reports, and follow-up activities were reviewed and tested to verify conformity to the *Standards*.
- The objectivity of the work performed was reviewed to determine the independence of the of Internal Audit Department.
- The Internal Audit Department staff's knowledge, skills, abilities, performance evaluation process, and training were evaluated by examining the department's work and administrative records.
- The scope and performance of planned and completed audit work was evaluated.
- The processes of communicating audit results and audit recommendation follow-up were reviewed.
- Appendices D-1 Internal Audit Governance, D-2 Internal Audit Staff, D-3 Internal Audit Management, and D-4 Internal Audit Process from the Manual were completed by the self-assessor and used in developing the overall opinion.
- Determined conformity to each of the *Standards* and then considered those determinations in coming to an overall conclusion.

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

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

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

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

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

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

**OPINION:**

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

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

**SELF-ASSESSMENT OBSERVATIONS AND COMMENTS:**

The remainder of this report includes selected survey results, conformity for each major area of professional guidance, opportunities for continuous improvement, and CAE responses.

**Survey Results**

The self-assessment included surveys of executive leadership, the CAE, and the Internal Audit staff. All responses were received from the six executives surveyed, as well as the six staff surveyed. The CAE’s responses were then compared to the other survey results. Select questions from the survey and responses (Strongly Agree, Agree, Disagree, Strongly Disagree, and Don’t Know) follow.

Questions:

1. *The internal audit activity is perceived as adding value and helping our organization accomplish its objectives.*
2. *Internal audit activity staff has free and unrestricted access to records, information, locations, and employees during the performance of their engagements.*
3. *The internal audit activity management effectively promotes appropriate ethics and values within our organization.*
4. *The internal audit activity management competently assesses the adequacy and effectiveness of our organization’s system of internal controls.*
5. *The internal audit activity exhibits proficient project management and organizational skills to the timely completion of its audit engagements.*
6. *The internal audit activity demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.*
7. *The internal audit activity demonstrates sufficient knowledge of fraud to identify “red flags,” indicating possible fraud when planning its audit engagements.*

**Self-Assessment Quality Assurance  
Internal Audit Report**

**C-Suite Management**



**Chief Audit Executive**



**Internal Audit Staff**



| <b><u>Question</u></b> | <b><u>Majority Responded</u></b> | <b><u>Responded</u></b> | <b><u>Majority Responded</u></b> |
|------------------------|----------------------------------|-------------------------|----------------------------------|
| 1                      | Agree                            | Agree                   | Agree                            |
| 2                      | Strongly Agree                   | Agree                   | Strongly Agree                   |
| 3                      | Strongly Agree                   | Strongly Agree          | Strongly Agree                   |
| 4                      | Strongly Agree                   | Agree                   | Strongly Agree                   |
| 5                      | Strongly Agree                   | Agree                   | Agree                            |
| 6                      | Agree                            | Strongly Agree          | Strongly Agree                   |
| 7                      | Strongly Agree                   | Strongly Agree          | Strongly Agree                   |

**Selected comments from executives surveyed:**

*Q: What would you describe as areas of strength for the internal audit activity?*

A: Integrity; audit planning; attention to detail; assessing risk; **communication**

*Q: How might the internal audit activity better add value to your organization?*

A: By helping us protect our assets through risk identification, and development of better policies and procedures through recommended practices.



**IIA's Attribute Standards Conformity**

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

**IIA's Performance Standards Conformity**

| <b>Standards<br/>Observation</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Conformity</b>             | <b>Opportunities for Continuous<br/>Improvement Based on<br/>Implementation Guides and<br/>Industry Better Practices</b>                                                                                                                                                                                                                                                                                                                                 | <b>CAE Response</b>                                                                                                                                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2000 – Managing the Internal Audit Activity</b><br><i>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</i>                                                                                                                                                                                                                                                                                                                                            | <b>Generally<br/>Conforms</b> | None                                                                                                                                                                                                                                                                                                                                                                                                                                                     | N/A                                                                                                                                                                                                                                                                                                         |
| <b>2100 – Nature of Work</b><br><i>The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.</i>                                                                                                                           | <b>Generally<br/>Conforms</b> | None                                                                                                                                                                                                                                                                                                                                                                                                                                                     | N/A                                                                                                                                                                                                                                                                                                         |
| <b>2200 – Engagement Planning</b><br><i>Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.</i>                                                                                                                                                                                                                        | <b>Generally<br/>Conforms</b> | Consider adding specific language, designed to comply with Standard 2201, as additional objectives to each audit: <ul style="list-style-type: none"> <li>• "To identify opportunities for improvement to governance, risk management, and control."</li> <li>• "To identify any cost savings."</li> </ul>                                                                                                                                                | Our audits have always addressed these objectives and many audit reports reflect the results of this focus. We will consider adding this specific language to engagement objectives in future audit engagements.                                                                                            |
| <b>2300 – Performing the Engagement</b><br><i>Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.</i><br><br>a) A couple of the selected engagements' workpapers did not include headings, initials, source, and purpose.<br>b) One engagements' workpapers had "broken" links to electronic documents.<br>c) One engagement tested a risk that was different than the risk listed in planning.<br>d) One engagement omitted the inherent risk rating. | <b>Generally<br/>Conforms</b> | <ol style="list-style-type: none"> <li>1) Continue to ensure work papers include headings, audit period, source, purpose, date, auditor's initials, final reviewer's initials on each workpaper.</li> <li>2) Continue to ensure that links to electronic documents are functioning as intended.</li> <li>3) Continue to ensure that risks tested in fieldwork match the risks listed in planning.</li> <li>4) Be sure to rate inherent risks.</li> </ol> | We agree with these recommendations and will take steps to reinforce them with the Internal Audit team. It is worth noting that there were very few instances noted by the assessor and the nature of these comments does not impact the quality of our work or our conformance with the <i>Standards</i> . |
| <b>2400 – Communicating Results</b><br><i>Internal auditors must communicate the results of engagements</i>                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Generally<br/>Conforms</b> | None                                                                                                                                                                                                                                                                                                                                                                                                                                                     | N/A                                                                                                                                                                                                                                                                                                         |
| <b>2500 – Monitoring Progress</b><br><i>The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.</i>                                                                                                                                                                                                                                                                                                                                                       | <b>Generally<br/>Conforms</b> | None                                                                                                                                                                                                                                                                                                                                                                                                                                                     | N/A                                                                                                                                                                                                                                                                                                         |

|                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                  |             |            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------|------------|
| <p><b>2600 – Communicating the Acceptance of Risks</b><br/> <i>When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.</i></p> | <p><b>Generally Conforms</b></p> | <p>None</p> | <p>N/A</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------|------------|

**IIA’s Code of Ethics Conformity**

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

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

**Principles:**

**1. Integrity**

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

**2. Objectivity**

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

**3. Confidentiality**

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

**4. Competency**

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

**Rules of Conduct:**

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

The Internal Audit Department generally conforms to the Code of Ethics, including the two essential components: Principles and Rules of Conduct.

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