
**COUNTY OF SANTA BARBARA
AUDITOR-CONTROLLER
INTERNAL AUDIT DIVISION**



**ANNUAL INTERNAL AUDIT PLAN
FOR THE 10 MONTH PERIOD FROM
SEPTEMBER 2018 THROUGH JUNE 2019**

**Submitted
September 18, 2018
Theodore A. Fallati, CPA, CPFO
Auditor-Controller**



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MISSION

The County of Santa Barbara (County) Internal Audit Division's (Division) mission is to provide reliable, independent, and objective Assurance¹ and Consulting² Services (i.e. Core Services) to the County Management, the Board of Supervisors (Board), and other stakeholders. By utilizing a systematic, disciplined approach, the services the Division provides will improve, and add value to, the County's operations.

To better support achieving our Mission, the Division's culture, practices, behaviors and operational philosophy shall be shaped and guided by the following tenets:

- (i) the Code of Ethics of the Institute of Internal Auditors (Code)
(Division staff will sign annual attestation affirming their compliance with the Rules of Conduct under this Code)
- (ii) the Scope of Duties and Professional Standards required under the Board approved Internal Audit Charter (Charter) and,
- (iii) the County's organizational values of:
 - a. trust and ethics,
 - b. customer focus and quality public services,
 - c. accountability and professionalism and,
 - d. innovation

Through our Division's services, we shall continually strive to be trusted advisors to key stakeholders by helping to continuously improve upon County practices in the areas of governance, risk management and compliance. We aim to deliver value by providing insight that helps management design the County's operations and processes to more successfully accomplish Countywide objectives and the following *Objectives of Internal Control*:

- I. Reliability of financial reporting
- II. Compliance with laws and obligations
- III. Efficiency and Effectiveness of Operations
- IV. Safeguarding of Assets

¹ **Assurance services**-involve the objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of the engagement are determined by the internal auditor. Generally, three parties are participants in assurance service: (1) the person or group directly involved with the entity, operation function, process, system, or other subject matter-process owner, (2) the person or group making the assessment – the internal auditor, and (3) the person or group using the assessment – the user.

² **Consulting services**-advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

OVERVIEW

This Annual Internal Audit Plan (Plan) has been developed and is being presented for approval in compliance with the Division's duties under the Charter approved by the Board on June 5, 2018 which requires the following:

“...Each fiscal year, the Division will prepare a risk-based Annual Internal Audit Plan (Plan) and present it to the Board for approval. The Plan will be developed using input from County management where available, and an overall prioritization approach which incorporates a risk-based methodology of potential auditable areas within the County's operations.”

This document has been developed to establish and prioritize the work activities for the Division for the Plan year. This Plan, and the Plan year within which its services are to be conducted, is designed to coincide with the 12 month, July-June, fiscal-year cycle traditionally used by the County. However, since this Plan is being proposed in September, this Plan's year has been shortened to the 10-month period from September 2018 to June 2019. This Plan has been segmented into two separate categories: Core Services (i.e. Assurance and Consulting), and Non-Core Supporting Services (Support Services). The proposed Core Services examine a variety of Departments and functional areas; and, to more effectively manage Division resources to execute this Plan, time-budgets have been allocated to each of these Services.

This proposed Plan considered the following factors during its development, including:

1. Audits and procedures mandated by California Government Code,
2. Audit requests
3. Renew 2022 strategic plan and consultations with Management
4. Results of a Countywide Enterprise Risk Assessment, and
5. Professional judgement of Division's staff

ANNUAL INTERNAL AUDIT PLAN –Development

Enterprise Risk Assessment

The Division used an Enterprise Risk Assessment (ERA) methodology to aid in developing this Plan. The ERA process engaged the 22 County Departments noted in Chart I, which encompassed 87 separate budget programs. This ERA solicited answers to a set of pre-defined questions and sought to identify and inventory the top 3 key processes within each of the Department budget programs below.

Designated Department representatives who participated in the ERA were also asked to identify the top risks impacting the successful achievement of the respective 3 key processes. Representatives and individuals were then asked to identify the internal controls in place to manage these risks. Additionally, the ERA asked participants to self-assess: (1) the probability a named process could fail given the internal controls identified and in place, and (2) the estimated adverse impact to the County, in the event the process were to fail.

Results of the ERA were used to help the Division stratify County processes most at risk of failure where the impact of such a failure would be significant to the County, and were useful in helping to drive the development of individual engagements on Plan. 2018 was the first year this ERA methodology was utilized and the Division received an 80% participation rate from Departments by the close of ERA window, July 31, 2018. Although several issues were identified as part of this ERA, the following categories of risks emerged as most pronounced themes:

(I) PEOPLE-RESOURCE CHALLENGES

Issue: Significant challenges exist within many Departments. The ability to continue balancing existing resource levels to the scope, breadth and quality of services required to be delivered to County stakeholders is becoming challenging.

(II) PHYSICAL SECURITY

Issue: Natural disasters, areas of County facilities (courts, administration building, etc.), and the unique nature of some County Department operations, present threats to the physical safety, security and well-being of County assets and employees.

(III) INFORMATION TECHNOLOGY (IT) SECURITY AND DATA PRIVACY

Issue: The County's increased volume of data stored electronically, combined with our growing reliance on IT for cost efficiencies and business continuity, pose potentially material operational risk to the achievement of the County's objectives and our compliance with privacy laws and best practices given our aging infrastructure and the potential incompatibility of data exchange among some internal IT systems.

Planning

The Auditor-Controller makes the final selection of the Division's Services presented in the Plan. To achieve optimum utilization of Division resources, Services selected are based upon a combination of the following:

1. Legal mandates
2. Audit requests
3. Enterprise Risk Assessment results
4. Capacity of Division's professionals
5. Sensitivity to:
 - Mismanagement
 - Unauthorized use of resources
 - Illegal or unethical acts (fraud, waste and abuse)
 - Adverse or unfavorable public opinion
 - Organizational culture

Department	Director	Budget Program
Agricultural Commissioner/W&M	Cathy M. Fischer	Administration and Support
		Agriculture
		Weights & Measures
Auditor Controller	Theo Fallati	Administration and Support
		Audit Services
		Accounting Services
		Financial Reporting
Behavioral Wellness	Alice Gleghorn	Administration and Support
		Mental Health Inpatient Services
		Quality Care Management
		Mental Health Outpatient & Community
		Alcohol & Drug Programs
		Case Management & Collections
Clerk-Recorder-Assessor	Joseph Holland	Administration and Support
		Elections
		Clerk-Recorder
		Assessor
Child Support Services	Kelly McLaughlin	Case Management & Collections
Community Services	George Chapjian	Administration and Support
		Parks & Open Spaces
		Housing & Community Development
		Community Support (Arts & Libraries)
		Energy and Sustainability Initiatives
County Counsel	Michael Ghizzoni	Legal services
County Executive Office	Mona Miyasato	County Management-Clerk of the Board
		Emergency Management
		Risk Management
Court Special Services*	Darrel Parker	Grand Jury
		Court Special Services
		Conflict Defense Representation
District Attorney	Joyce Dudley	Administration and Support
		Criminal Prosecution
		Civil Prosecution
Fire	Eric Peterson	Administration and Support
		Fire Prevention
		Emergency Operations
First 5, Children & Families*	Wendi Sims-Moten	Administration and Support
		Program Evaluation and Research
		Children's Wellness and Support
General Services	Janette Pell	Administration and Support
		Capital Projects
		Facilities and Real Estate Management
		Fleet operations
		Information and Communications Technology
		Purchasing, Surplus and Mail

Chart 1:

Department Participant Request

Department	Director	Budget Program
Human Resources	Lori Gentles	Administration and Support
		Employee Relations/Benefits
		Recruiting and Classification
		Employees' University
		Shared Services
		Employee Insurance
		Unallocated
Planning & Development	Dianne Black	Administration and Support
		Permitting
		Coastal Mitigation
		Code Enforcement
		Long Range Planning
Probation	Tanja Heitman	Administration and Support
		Institutions
		Juvenile Services
		Adult Services
Public Defender*	Tracy Macuga	Administration and Support
		Adult Legal Services
		Juvenile Legal Services
Public Health	Van Do-Reynoso	Administration and Support
		Health Care Centers
		Indigent Health Programs
		Disease Prevention & Health Promotion
		Regulatory Programs & Emergency Preparedness
		Animal Services
Public Works	Scott McGolpin	Administration and Support
		Transportation
		Surveyor
		Water Resources/Flood Control
		Resource Recovery & Waste Management
Sheriff	Bill Brown	Administration and Support
		Custody Operations
		Countywide Law Enforcement
		Court Security Services
Social Services	Daniel Nielson	Administration and Support
		Public Assistance and Welfare to Work Activities
		Medi-Cal Eligibility
		Protective Services for Children, Adults, Disabled
Treasurer-Tax Collector-Public	Harry Hagen	Administration and Support
		Treasury
		Tax & Collections
		Public Assistance

*information from Department not received by cutoff date July 31, 2018

ANNUAL INTERNAL AUDIT PLAN

The development of a risk based internal audit plan is a requirement under the Charter and is also required in order to comply with *Standard 2100-Planning*, from the Standards & Guidance manual of the Institute of Internal Auditors International Professional Practices Framework (IPPF), commonly referred to as the “IIA Red Book”, which states:

“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.”

The following is a schedule of Services the Division plans to perform during this shortened Plan year (September 2018 through June 2019). The Services under this Plan have been designed to offer a broad array of Core Services which are operational, financial, compliance and Information Technology (IT) in nature. In proposing this Plan, our intent is to complete the Services identified during the Plan year using available Division resources. However, given the broad, dynamic and evolving operating environment within the County, some flexibility and modification to this Plan may be required. Consequently, this Plan may be adjusted during the course of the Plan year at the discretion of the Auditor-Controller, based on the County’s evolving needs for the Division’s Services.

Those Core Services which the Division not has not yet started or *Completed* as of the end of any given Plan year, may be *In-Progress/Carried-Over*, *Cancelled* or *Postponed* to a subsequent Plan year, at the discretion of the Auditor-Controller; for reference and tracking purposes, these Services will be classified as such on subsequent Plans when submitted for Board approval. Core Services *In-Progress* as of the end of any given Plan year shall be *Carried-Over and Completed* within following Plan year, unless cancelled by the Auditor-Controller.

**NET ANNUAL STAFF HOURS AVAILABLE
(FOR INTERNAL AUDIT PLAN) 5,684**

PLAN ACTIVITY TYPE	ENGAGEMENT NAME	AGENCY / DEPARTMENT	HOURS ALLOCATED TO ENGAGEMENT	PRELIMINARY ENGAGEMENT OBJECTIVE	UNDERLYING INTERNAL CONTROL OBJECTIVE ON WHICH TO PROVIDE ASSURANCE	LINKAGE TO RENEW 2022
CORE SERVICES - ASSURANCE	Vendor Contract Monitoring	TBD	200	To determine whether companies contracted to perform services for the County complied with their contract terms and conditions and the Public Contract Code.	Compliance	
	TAX redemption Officers Audit	Treasurer / Tax Collector	350	Part VII, Chapter 1, Section 4108.5 of the R&T Code, requires an audit to be performed once every three years of the records and the counts of the Tax Collector relating to the performance of his duties as the Tax Redemption Officer. The objective of this line item is to ensure that the CoSB is in compliance with the Code.	Compliance	
	Cash and Investment Audit Q1 2018	Treasurer / Tax Collector	80	Pursuant to California Government Code 26920 and Santa Barbara County Code 2-23.2, determine whether cash and investment shown on the Statement of Assets of the Santa Barbara County Treasurer's Investment Pool are reasonably stated.	Reliability of Financial Reporting	
	Cash and Investment Audit Q2 2018	Treasurer / Tax Collector	80	Pursuant to California Government Code 26920 and Santa Barbara County Code 2-23.2, determine whether cash and investment shown on the Statement of Assets of the Santa Barbara County Treasurer's Investment Pool are reasonably stated.	Reliability of Financial Reporting	
	Cash and Investment Audit Q3 2018	Treasurer / Tax Collector	80	Pursuant to California Government Code 26920 and Santa Barbara County Code 2-23.2, determine whether cash and investment shown on the Statement of Assets of the Santa Barbara County Treasurer's Investment Pool are reasonably stated.	Reliability of Financial Reporting	
	Cash Counts Q1 2018	Various	40	Perform a surprise cash count at various cash handling counters within the County's operation to ensure cash proceeds are being tracked, logged and accounted for.	Reliability of Financial Reporting	
	Cash Counts Q2 2018	Various	40	Perform a surprise cash count at various cash handling counters within the County's operation to ensure cash proceeds are being tracked, logged and accounted for.	Reliability of Financial Reporting	
	Cash Counts Q3 2018	Various	40	Perform a surprise cash count at various cash handling counters within the County's operation to ensure cash proceeds are being tracked, logged and accounted for.	Reliability of Financial Reporting	

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PLAN ACTIVITY TYPE	ENGAGEMENT NAME	AGENCY / DEPARTMENT	HOURS ALLOCATED TO ENGAGEMENT	PRELIMINARY ENGAGEMENT OBJECTIVE	UNDERLYING INTERNAL CONTROL OBJECTIVE ON WHICH TO PROVIDE ASSURANCE	LINKAGE TO RENEW 2022
CORE SERVICES - ASSURANCE	Cash Counts Q4 2018	Various	40	Perform a surprise cash count at various cash handling counters within the County's operation to ensure cash proceeds are being tracked, logged and accounted for.		
	Credit Card Administration	Various	150	Assist the Financial Accounting division with a review of credit card activity and Department's compliance with the County's Credit Card Policy.	Safeguarding of Assets	
	Business Continuity (and Disaster Recovery) Program Review	CEO	375	Review business continuity and/or disaster recovery plans for design and completeness against best practices. Areas of potential focus: Are all plans up to date? Are all critical business functions and systems covered? Are the plans based on the risks and potential consequences of business interruptions? Are the plans fully documented? Have functional responsibilities been assigned? Is the organization capable of and prepared to implement the plans? Are the plans tested and revised based on the results? Are the plans stored properly and safely? Is the storage location known? Are the locations of alternate facilities (backup sites) known to employees? Do the plans call for coordination with local emergency services?	Effectiveness of Operations	Redesign - process improvements and efficiencies
	Agency Fund Reviews	Various	250	Review the County's Agency funds for compliance with the County's Fiduciary Fund Trust and Agency Processing Policy.	Compliance	
	Review of internal controls for warrants issued	Probation	100	Review the procedures and policies in place which guide the warrant issue process in the Probation Department or other Departments where warrants are issued outside of the Auditor-Controller's office	Safeguarding of Assets	
	Review-Human Resources Financial controls	Human Resources	100	Review procedures and policies in place for compliance with financial policies.	Safeguarding of Assets	
	Asset Surplus review	General Services	100	Review existing practices related to asset surplus administration and evaluate their compliance with applicable County policies.	Compliance	
	Department Review	Behavioral Wellness	325	Ensure internal controls are in place and operating effectively to address selected matters which were identified during the 2018 enterprise risk assessment initiative. (Scope of this engagement to be determined by the internal audit engagement lead when engagement commences, based upon the engagement level risk assessment, to be performed at that time).	Compliance	

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PLAN ACTIVITY TYPE	ENGAGEMENT NAME	AGENCY / DEPARTMENT	HOURS ALLOCATED TO ENGAGEMENT	PRELIMINARY ENGAGEMENT OBJECTIVE	UNDERLYING INTERNAL CONTROL OBJECTIVE ON WHICH TO PROVIDE ASSURANCE	LINKAGE TO RENEW 2022
CORE SERVICES - CONSULTING	Information Technology Controls Assessment	General Services	325	Assist the Information, Communication/Technology Division in evaluating its existing practices against General Control Frameworks including COBIT information technology governance framework and where time allows NIST for information security and recommend improvements where gaps are found within key domains reviewed.	Effectiveness of Operations	Redesign - Technology Improvements
	Computer Assisted Auditing Techniques (CAAT)	Various	250	Identify potential fraud scenarios in the areas of procurement, purchasing, payroll, or receivables and design automated tests which can continually monitor and analyze data to ensure controls are working according to design. Potential areas to test are management overrides, segregation of duties, multiple payments to same vendor without receipt for service, active USERID's in FIN to active employee table, et. al.	Efficiency of Operations	Redesign - Process Improvements and efficiencies
	Internal Controls Training Program	Various	250	Develop a formal awareness, training and education class on the topic of Internal control and present this at the County's employee university, online and/or at the request of County Departments.	Effectiveness of Operations	
	Countywide Management Requests	Various	250	The objective of this activity serves to allocate hours to County management for requests for assistance.	Effectiveness of Operations	
	Information Technology Risk Assessment for Auditor-Controller Financial Systems	Auditor-Controller	200	Help facilitate the development of a periodic IT risk assessment, to be performed periodically, for significant applications that support the County's financial reporting procedures. This risk assessment framework serves to identify critical assets, prioritize critical assets, identify threats to critical assets, identify vulnerabilities to critical assets, determine likelihood of incident, assesses the impact a threat could have, prioritizes the risks to critical assets, develops mitigation plans for remediating top risks.	Effectiveness of Operations	Redesign - process improvements and efficiencies
	IT Internal Vulnerability Assessment	General Services	200	The objective of this engagement is to coordinate with the County's Information Technology and Communications Division, or where applicable third-party providers, to ensure the County has a procedure to implement and perform vulnerability assessments, on a scheduled basis, of the Auditor-Controller's network and systems.	Effectiveness of Operations	Redesign - process improvements and efficiencies
	Review of Bank Accounts Outside of Treasury	Various	100	Identify, through survey to all Departments, all bank accounts which are not overseen by the County Treasurer. For those accounts identified, determine purpose of the account and individuals authorized to sign for disbursements. Ensure that Auditor-Controller is added as a signatory on those identified bank accounts.	Safeguarding of Assets	Redesign - process improvements and efficiencies
Core Services - Hours Allocated			3,925			

**NET ANNUAL STAFF HOURS AVAILABLE
(FOR INTERNAL AUDIT PLAN) 5,684**

PLAN ACTIVITY TYPE	ENGAGEMENT NAME	AGENCY / DEPARTMENT	HOURS ALLOCATED TO ENGAGEMENT	PRELIMINARY ENGAGEMENT OBJECTIVE	
NON CORE SERVICES (SUPPORTING ACTIVITIES)	Annual Internal Audit Plan Development	Supporting	175	Develop the 2019-2020 risk based internal audit plan that will be presented to the County's Board of Supervisors for approval in 2019.	Supporting Activities
	Division's Continuing Professional Education Requirement	Supporting	200	Internal Audit Staff training and development consistent with requirements under Red Book Standards 1210-Proficiency, 1220-Due Professional Care, 1230-Continuing Professional Development.	
	Management Action Plan Follow Up	Supporting	100	Follow up on action items to be implemented by management as a result of findings and recommendations issued in Core Services reports published by the Division as is required under Standard 2500-Monitoring Progress of the Red Book standards.	
	TEAMMATE Initiative: Audit Engagement Software Migration, Implementation and Administration	Supporting	650	This activity is required to successfully implement the new Audit software application acquired from a third party vendor. This application is intended to help facilitate the Division administration of and compliance with Standard 2200-Engagement Planning, 2201-Planning Considerations, 2210-Engagement Objectives, 2220-Engagement Scope, 2230-Engagement Resource Allocation, 2240-Engagement Work Program, 2300-Performing the Engagement, 2330-Documenting Information and 2340-Engagement Supervision of the Red Book standards.	
	Review and Update of Internal Audit Policies and Procedures	Supporting	125	Ensure the Division is abiding by Standard 2040 Policies and Procedures of the Red Book standards.	
	Whistleblower Hotline Administration	Supporting	450	Administration, evaluation and assessment of Whistleblower Hotline activity to identify and remediate any instances of fraud, waste and/or abuse.	
	Reporting (Loss/Theft, Vendor >\$100K, External Monitoring Reports)	Supporting	60	Prepare, complete and deliver various Board level reports.	
Non Core Services - Hours Allocated			1,760		

Map of Internal Audit Services

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



Legend to Map Symbols



Assurance Services

Independent evaluation, analysis, and testing performed on transactions and documents to determine their accuracy or compliance with related policies and procedures, and/or regulations. These services may be required by Government Code or Board Resolution, requested by the Board of Supervisors or County Management, or others.



Consulting Services

Analysis, research, and training performed for departments and programs to evaluate business risks and identify opportunities for improvement. These services may be requested by the Board of Supervisors or County Management. There is more leeway in how consulting services are performed, whereas assurance services have specific rules and procedures that must be followed by Internal Audit. Some process steps are only performed when requested.

Examples of Services

Operational

- Process Improvement
- Safeguarding Assets
- Internal Controls

Compliance

- Payroll & Employee Benefits
- State/Federal Grants
- Policies & Procedures
- Contracts

Financial

- Cash Management
- Accounting
- Cost Allocation

RESOURCES

FTE Positions

INTERNAL AUDIT DIVISION
Internal Audit Chief
Audit Supervisor
Cost Analyst I
Accountant-Auditor III
Accountant-Auditor I

The Division has a funded budget for 5 FTE's and has fully staffed to budgeted headcount as of the beginning of this Plan year (July 1, 2018) and as of the date of this Plan submitted for Board approval. The Auditor-Controller will continue to evaluate the need for increased headcount annually, in light of the increased complexity of County business processes and stakeholder expectations. The Auditor-Controller will seek increased funding, where appropriate, from the Board to support the Division's ongoing activities and the County's evolving need for its services.

Staff Hours Available for Plan

DIVISION ROLE	TOTAL ANNUAL STAFF HOURS	NET ANNUAL STAFF HOURS	NET CORE SERVICE HOURS	NET SUPPORT SERVICE HOURS	ADMINISTRATIVE
Internal Audit Chief	2,080	1,727	173 10.0%	691 40.0%	863 50.0%
Audit Supervisor	2,080	1,727	648 37.5%	648 37.5%	432 25.0%
Cost Analyst I	2,080	1,727	1,381 80.0%	173 10.0%	173 10.0%
Accountant-Auditor III	2,080	1,727	1,381 80.0%	173 10.0%	173 10.0%
Accountant-Auditor I	2,080	1,727	1,381 80.0%	173 10.0%	173 10.0%
Annual Audit Staff Hours Available (July 2018-June 2019)		8,634	4,964	1,856	1,813
Less July and August hours consumed		(1,439)	(827)	(309)	(302)
Net Annual Audit Staff Hours Available (August 2018-June 2019)		7,195	4,137 58%	1,547 22%	1,511 20%

80% = Target Productive Rate for Division

Hours available for the Plan are based upon a combination of staff count, team member area of focus (Administrative vs. Services activity) and available annual staff hours per staff member. All Division professionals are full-time equivalents (FTEs) with a total of 2,080 hours available during the Plan year based upon a 52 week year and a 40 hour work week. After adjusting for sick days, vacation time, turnover and other accrued items and hours from July and August which have rolled off, a total of 7,195 hours are available. Staff productivity level for this Plan is targeted at 80%, to be allocated to support the Division's Core and Support service activities.

5-year Plan Coverage

DEPARTMENT	VOLUME OF ENGAGEMENTS by PLAN YEAR by DEPARTMENT																			
	2018-2019				2019-2020				2020-2021				2021-2022				2022-2023			
	Completed	In Progress-Carry Over	Postponed	Cancelled	Completed	In Progress-Carry Over	Postponed	Cancelled	Completed	In Progress-Carry Over	Postponed	Cancelled	Completed	In Progress-Carry Over	Postponed	Cancelled	Completed	In Progress-Carry Over	Postponed	Cancelled
Auditor-Controller																				
Agricultural Commissioner / W&M																				
Behavioral Wellness																				
Clerk-Recorder-Assessor																				
Child Support Services																				
Community Services																				
County Counsel																				
County Executive Office																				
Court Special Services																				
District Attorney																				
First Five, Children & Families																				
Fire																				
General Services																				
Human Resources																				
Planning & Development																				
Probation																				
Public Defender																				
Public Health																				
Public Works																				
Sheriff																				
Social Services																				
Treasurer-Tax Collector-Public Administrator																				
Total Core Services Planned																				

To better help Stakeholders track and monitor those areas where the Division has focused its available resources, beginning with the close of Plan 2018-2019 and upon the close of each subsequent Plan year, the Division will report out as part of each Plan submitted the status of Core Services conducted within each of the above County Departments, in a format similar to that above, which lists engagements Completed, In-Progress/Carry-Over, Postponed and Cancelled during each respective Plan year.

Appendix A

Internal Audit Charter



INTERNAL AUDIT CHARTER

County of Santa Barbara

Auditor-Controller

County of Santa Barbara

Internal Audit Charter (Charter)

MISSION AND PURPOSE

The County of Santa Barbara (County) Internal Audit Division's mission is to provide reliable, independent, objective assurance and consulting services to County management, the Board of Supervisors, and other stakeholders. By utilizing a systematic, disciplined approach, our services will add value to and improve operations. We will provide expertise and evaluate and improve the effectiveness of controls and other processes, minimize risks, and enhance operational effectiveness for stakeholders; as well as contribute to protecting and safeguarding resources and assets.

AUTHORITY

On May 23, 1961, the Board of Supervisors (Board) adopted Resolution No. 21387 and in doing so, enacted Government Code §26883. By enacting this code section, the Board authorized the Auditor-Controller to audit the accounts and records of any department, office, board or institution under the Board's control and of any district whose funds are kept in the County treasury. The Internal Audit Division (Division) was established subsequent to Resolution No. 21387 to fulfill the auditing responsibilities assigned to the Auditor-Controller. Additional audit rights and authorities above and beyond those provided under Resolution No. 21387 may be conferred to the Auditor-Controller from time to time, through State Government Code and other statutory pronouncements. The role of the Division shall have authority under this document to provide reasonable assurance and consulting services to County management, the Board and key stakeholders consistent with the Scope of Duties and Mission and Purpose identified in this Charter, and subject to the resource constraints applicable to the Division.

SCOPE OF DUTIES

The Division's authorized duties shall encompass examination and evaluation of the adequacy and effectiveness of the County's governance, risk management, and internal controls as well as the quality of management's performance in carrying out assigned responsibilities to achieve the County's stated goals and objectives. The Division's scope of duties while accomplishing its assurance and consulting work activities may include, but shall not be limited to the following:

- Evaluating and reporting on the effectiveness of County processes related to governance, risk management and internal control,
- Periodically communicating to interested parties, the Division's purpose, authority, responsibility, and operating performance relative to its approved Annual Internal Audit Plan,
- Communicating risk exposures and internal control issues relating to achievement of the County's objectives,
- Reporting on significant risk exposures and internal control issues, including fraud risks, governance issues, and other matters needed or requested by the Board,
- Evaluating selected operating activities at the request of the Board or management,
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information,

County of Santa Barbara

Internal Audit Charter (Charter)

- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact to the County's operations,
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets,
- Evaluating the effectiveness and efficiency with which resources are employed,
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned,
- Evaluating external auditor performance and the extent to which interaction with the Division's staff was collaboratively coordinated.

PROFESSIONAL STANDARDS

The Division will comply with California Government Code §1236 which states that:

“(a) All city, county and district employees that conduct audits or that conduct audit activities of those respective agencies shall conduct their work under the general and specified standards (IPPF Standards) prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate. The standards generally provide as follows:

- (1) That auditors should be independent of the activities they audit.
- (2) That audits should be performed with proficiency and due professional care.
- (3) That the scope of the audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.
- (4) That audit work should include planning the audit, examining and evaluating information, communicating results, and following up.
- (5) That the chief auditor should properly manage the auditing department.

(b) Nothing in this section is intended to limit the rights or obligations of auditors to conduct audits and audit activities in accordance with other laws and regulations that may apply to a particular entity, as appropriate.”

ACCESS TO RECORDS

To fulfill its duty under Board Resolution No. 21387, and except where prohibited by law, the Division, with strict accountability for confidentiality and safeguarding records and information, shall have full, free, and unrestricted access to any and all records, physical properties, and personnel pertinent to carrying out any engagement. All employees of the County and its dependent agencies are required to enable the Division to fulfill its Mission and Scope of Duties.

County of Santa Barbara

Internal Audit Charter (Charter)

GOVERNANCE

The Division reports to the County Auditor-Controller. The Auditor-Controller maintains organizational independence through his/her election to the position by the citizens of the County.

To substantiate organizational and governance related support for the role of the Division, the Board shall:

- Approve the Division's Internal Audit Charter and subsequent modifications thereto,
- Approve the Division's risk-based Annual Internal Audit Plan,
- Approve the Division's Budget, as part of the annual Budget approval,
- Receive communications from the Auditor-Controller on the Division's progress relative to its Annual Internal Audit Plan and other matters,
- Make appropriate inquiries of the Auditor-Controller to determine whether any scope or resource limitations adversely impact the duties assigned to the Division in accordance with this Charter.

INDEPENDENCE AND OBJECTIVITY

The Division will remain free from interference by any element in the County, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. Where independence or objectivity is perceived to be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, install systems, prepare records, or engage in any other activity that may impair the auditor's judgment.

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

The Auditor-Controller will confirm to the Board, at least annually through attestation or certification, the organizational independence of the Division's activity.

ANNUAL INTERNAL AUDIT PLAN

Each fiscal year, the Division will prepare a risk-based Annual Internal Audit Plan (Plan) and present it to the Board for approval. The Plan will be developed using input from County management where available, and an overall prioritization approach which incorporates a risk-based methodology of potential auditable areas within the County's operations. The Auditor-Controller will communicate to senior management and the Board, the consequence of significant resource limitations and material changes occurring during the year which may adversely impact the Division's progress toward completing its Plan by the end of each fiscal year.

County of Santa Barbara
Internal Audit Charter (Charter)

REPORTING AND MONITORING

Consistent with its Plan, the Division is authorized under this Charter to:

- (i) engage in assurance and consulting work activities (i.e. core work activities) reflected on the approved Annual Internal Audit Plan and,
- (ii) other non-core work activities as needed by the Board and County management, in support of core work activities, and within the Definition of Internal Audit and Scope of Duties.

A written report (with any significant audit findings and subsequent audit recommendations) may be prepared and issued by the Division following the conclusion of core work activities. These written reports may be distributed to relevant stakeholders as deemed appropriate by the Auditor-Controller, and as required under Professional Standards. Where applicable, the Division shall monitor County management's progress with respect to action plans in place to address findings noted in written reports.

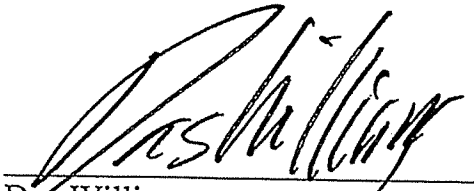
QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Division will maintain a Quality Assurance and Improvement Program (Program) that covers key aspects of the internal audit activity. The Program will include an evaluation, by a peer review group external to the County, of the Division's conformance with the Definition of Internal Auditing and the IPPF Standards and whether internal auditors apply the Code of Ethics. The Program shall also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

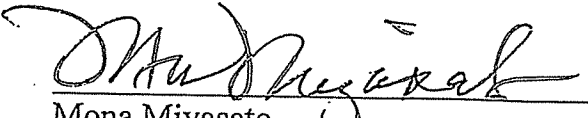
The Auditor-Controller will communicate to the County Executive Officer and the Board on the Division's Program, including results of ongoing internal assessments and external assessments conducted at least every five years.

EFFECTIVE DATE

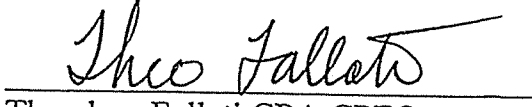
Approved this 5th day of June, 2018



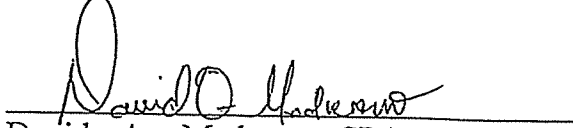
 Das Williams
 Chairperson-Board of Supervisors
 County of Santa Barbara, California



 Mona Miyasato
 County Executive Officer
 County of Santa Barbara, California



 Theodore Fallati CPA CPFO
 Auditor-Controller



 David A. Medrano CPA CIA CFE
 Internal Audit Chief

Appendix B

International Standards for the Professional Practice of Internal Auditing

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Introduction to the *Standards*

Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the *Standards* is to:

1. Guide adherence with the mandatory elements of the International Professional Practices Framework.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing services.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

The *Standards* are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the *Standards*.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the Code of Ethics and the *Standards* demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The *Standards* employ terms as defined specifically in the Glossary. To understand and apply the *Standards* correctly, it is necessary to consider the specific meanings from the Glossary. Furthermore, the *Standards* use the word “must” to specify an unconditional requirement and the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

The *Standards* comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Assurance services involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor. Generally, three parties are participants in assurance services: (1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — the internal auditor, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services the internal auditor should maintain objectivity and not assume management responsibility.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the *Standards*.

If internal auditors or the internal audit activity is prohibited by law or regulation from conformance with certain parts of the *Standards*, conformance with all other parts of the *Standards* and appropriate disclosures are needed.

If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, internal audit communications may also cite the use of other requirements, as appropriate. In such a case, if the internal audit activity indicates conformance with the *Standards* and inconsistencies exist between the *Standards* and other requirements, internal auditors and the internal audit activity must conform with the *Standards* and may conform with the other requirements if such requirements are more restrictive.

The review and development of the *Standards* is an ongoing process. The International Internal Audit Standards Board engages in extensive consultation and discussion before issuing the *Standards*. This includes worldwide solicitation for public comment through the exposure draft process. All exposure drafts are posted on The IIA's website as well as being distributed to all IIA institutes.

Suggestions and comments regarding the *Standards* can be sent to:

The Institute of Internal Auditors
Standards and Guidance
1035 Greenwood Blvd, Suite 401
Lake Mary, FL 32746 USA

E-mail: guidance@theiia.org

Web: www.globaliia.org

**INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF
INTERNAL AUDITING (STANDARDS)**

Attribute Standards

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 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.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognizing Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

1100 – Independence and Objectivity

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

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.

International Standards for the Professional Practice of Internal Auditing (Standards)

This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 – Organizational Independence

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.

Interpretation:

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.*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1112 – Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

Interpretation:

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the

International Standards for the Professional Practice of Internal Auditing (Standards)

internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.A3 – The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends, and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

International Standards for the Professional Practice of Internal Auditing (Standards)

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Probability of significant errors, fraud, or noncompliance.
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement’s objectives.
- Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

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.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity’s conformance with 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. The chief audit executive should encourage board oversight in the quality assurance and improvement program.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

International Standards for the Professional Practice of Internal Auditing (Standards)

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is 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 Code of Ethics and the Standards.

Periodic assessments are conducted to evaluate conformance with the Code of Ethics and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

Interpretation:

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Code of Ethics and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

1321 – Use of “Conforms with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement program.

Interpretation:

The internal audit activity conforms with the Code of Ethics and the Standards when it achieves the outcomes described therein. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Performance Standards

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.

Interpretation:

The internal audit activity is effectively managed when:

- *It achieves the purpose and responsibility included in the internal audit charter.*
- *It conforms with the Standards.*
- *Its individual members conform with the Code of Ethics and the Standards.*
- *It considers trends and emerging issues that could impact the organization.*

The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

2010 – Planning

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.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval

International Standards for the Professional Practice of Internal Auditing (Standards)

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination and Reliance

The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.

Interpretation:

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity, and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives, and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the *Standards*. Reporting must also include

International Standards for the Professional Practice of Internal Auditing (Standards)

significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management, and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- *The audit charter.*
- *Independence of the internal audit activity.*
- *The audit plan and progress against the plan.*
- *Resource requirements.*
- *Results of audit activities.*
- *Conformance with the Code of Ethics and the Standards, and action plans to address any significant conformance issues.*
- *Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organization.*

These and other chief audit executive communication requirements are referenced throughout the Standards.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation:

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Code of Ethics and the Standards.

2100 – Nature of Work

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.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes for:

International Standards for the Professional Practice of Internal Auditing (*Standards*)

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor’s assessment that:

- *Organizational objectives support and align with the organization’s mission.*
- *Significant risks are identified and assessed.*
- *Appropriate risk responses are selected that align risks with the organization’s risk appetite.*
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization’s risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

2200 – Engagement Planning

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.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

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2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

Interpretation:

Types of criteria may include:

- *Internal (e.g., policies and procedures of the organization).*
- *External (e.g., laws and regulations imposed by statutory bodies).*
- *Leading practices (e.g., industry and professional guidance).*

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

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2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 – Performing the Engagement

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

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Interpretation:

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Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

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Communications must include the engagement's objectives, scope, and results.

2410.A1 – Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion 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.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

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2430 – Use of “Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*”

Indicating that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” is appropriate only if supported by the results of the quality assurance and improvement program.

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the Code of Ethics or the Standard(s) with which full conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization.
- Consult with senior management and/or legal counsel as appropriate.
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other

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stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will include:

- *The scope, including the time period to which the opinion pertains.*
- *Scope limitations.*
- *Consideration of all related projects, including the reliance on other assurance providers.*
- *A summary of the information that supports the opinion.*
- *The risk or control framework or other criteria used as a basis for the overall opinion.*
- *The overall opinion, judgment, or conclusion reached.*

The reasons for an unfavorable overall opinion must be stated.

2500 – Monitoring Progress

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

2500.A1 – The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 – Communicating the Acceptance of Risks

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.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

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Glossary

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organization. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organizations.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Standards for the Professional Practice of Internal Auditing (*Standards*)

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

Must

The *Standards* use the word “must” to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.

Should

The *Standards* use the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the International Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

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Appendix C

Code of Ethics

CODE OF ETHICS

Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

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

2. Objectivity

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

3. Confidentiality

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

4. Competency

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

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

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3. Confidentiality

Internal auditors:

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

4. Competency

Internal auditors:

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