

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



**ITEM
2.4
(ID # 10840)**

MEETING DATE:

Tuesday, September 17, 2019

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR CONTROLLER: Report on Self-Assessment: Riverside County Auditor-Controller's Office Internal Audit Activity, Quality Assurance Improvement Plan, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Report on Self-Assessment: Riverside County Auditor-Controller's Office Internal Audit Activity, Quality Assurance Improvement Plan

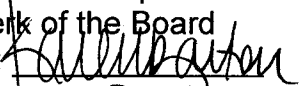
ACTION: Consent


Paul A. Angulo, County Auditor-Controller 9/9/2019

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Hewitt, seconded by Supervisor Perez and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: None
Date: September 17, 2019
xc: Auditor

Keqia R. Harper
Clerk of the Board
By: 
Deputy

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BACKGROUND:

Summary

California Government Code 1236 requires counties internal audit departments to follow either the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors, or the Government Auditing Standards established by the Government Accountability Office. The Internal Audit Division of the Auditor-Controller's Office follows the standards issued by the Institute of Internal Auditors (IIA). These standards require the performance of an independent external quality assurance review (peer review) every five years.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: N/A	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary (continued)

The Auditor-Controller's Office participates in the State Association of County Auditor's peer review program. This program keeps the cost of peer reviews to a minimum by reciprocal peer review agreements. The County of Santa Cruz is currently performing a peer review of the Internal Audit Activity which consist of two parts as follows:

1. A self-assessment performed by the Internal Audit Division of the Riverside County Auditor-Controller's Office. The self-assessment focuses on internally evaluating conformance with the internal audit charter, the IIA's Definition of Internal Auditing, the Code of Ethics, and the Standards. Self-assessments is a recognized best practice whereby individual organizations self-audit the controls under their responsibility and report them to appropriate level management. This Form 11 with the attached report, presents the results of the self-assessment.

2. An independent validation performed by Santa Cruz County. The results of the independent validation performed by Santa Cruz County will be reported at a later time.

It is our overall opinion that the Internal Audit Activity generally conforms to the Standards and the Code of Ethics. Our review of the 52 standards showed the Internal Audit Activity generally conforms to 47 standards, partially conforms to three standards, and does not conform to two

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standards. In addition, our review identified that the Internal Audit Activity generally conforms to the code of ethics.

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A:

Report on Self-Assessment: Riverside County Auditor-Controller's Office Internal Audit Activity, Quality Assurance Improvement Plan.

**Report on Self-Assessment
In Conformance with The Institute of Internal
Auditors Definition of Internal Audit, its Code of
Ethics, and its International Professional Practices
Framework**

Riverside County Auditor-Controller's Office

Quality Assurance Improvement Plan

Report Date: August 26, 2019



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Report on Self-Assessment: Riverside County Auditor-Controller's Office Internal Audit Activity, Quality Assurance Improvement Plan

Executive Summary

Overview

California Government Code 1236 require county internal audit departments to follow either the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (Standards and the Code of Ethics), or the Government Auditing Standards established by the Government Accountability Office. Riverside County follows the Standards and Code of Ethic issued by the Institute of Internal Auditors. These standards require the performance of an independent external quality assurance review (peer review) every five years. This can be accomplished through a full external assessment or a self-assessment with independent validation.

The Auditor-Controller's Office participates in the State Association of County Auditor's peer review program. This program keeps the cost of peer reviews to a minimum by reciprocal peer review agreements. The County of Santa Cruz will be performing a peer review of the Internal Audit Activity this fiscal year. This peer review will consist of a self-assessment performed by Riverside County and an independent validation performed by Santa Cruz County. The results of this self-assessment are contained in this report. The results of the independent validation performed by Santa Cruz County will be reported at a later time.

The objective of the peer review and self-assessment is to assess the Internal Audit Activity's compliance with the Standards and the Code of Ethics. The review includes:

- Assessing the efficiency and effectiveness of the Internal Audit Activity as it pertains to its charter, the expectations of the Board of Supervisors, the Auditor-Controller, the Executive Office, and the Chief of Audits.
- Providing an opinion on the Internal Audit Activity's conformance to the spirit and intent of professional audit standards.
- Identifying opportunities and suggestions for enhancing the operations of the Internal Audit Activity.

The Internal Audit Activity function will utilize the analysis presented in the peer review and self-assessment to strengthen its operations.

Objectives

The principle objective of the self-assessment was to assess the Internal Audit Activity's conformance with the Standards and the Code of Ethics.

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The Internal Audit Activity also evaluated its effectiveness in carrying out its mission (as set forth in the internal audit activity's charter), identified successful demonstration of internal audit activity practices, and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the organization, processes, and the value to its stakeholders.

An independent party will validate the results of the Internal Audit Activity's self-assessment. The main focus will be to validate the conclusion of the Internal Audit Activity's conformance with the Standards and the Code of Ethics. They will also review the Internal Audit Activity's observations related to successful internal audit practices and opportunities for continuous improvement.

Scope and Methodology

The scope of the self-assessment included the Internal Audit Activity, as set forth in the internal audit charter and approved by the Board of Supervisors, which defines the purpose, authority, and responsibility of the Internal Audit Activity. The self-assessment was concluded on November 21, 2018 and provides senior management and the Board of Supervisors with information about the Internal Audit Activity as of that date. The Standards and Code of Ethics issued by the Institute of Internal Auditors used to conduct the self-assessment were effective as of December 31, 2016.

The Internal Audit Activity compiled and prepared information consistent with the methodology established in the Quality Assessment Manual issued by the Institute of Internal Auditors. This information included planning guides, supporting documentation, an evaluation summary, which documents all conclusions and observations, and the self-assessment report.

Opinion as to Conformance with the Standards and the Code of Ethics

It is our overall opinion that the Internal Audit Activity generally conforms with the Standards and the Code of Ethics. Our review of the 52 standards showed the following about the Internal Audit Activity conformance to the standards:

- Generally conforms to 47 standards
- Partially conforms to three standards
- Does not conform to two standards

In addition, our review identified the Internal Audit Activity generally conforms to the code of ethics. A detailed list of conformance with individual Standards and the Code of Ethics is shown in Attachment A. Detailed definitions for each of the ratings used are shown in Attachment B.

Summary of Observations

The Internal Audit Activity believes that the environment in which we operate is well structured and progressive, where the Standards are understood, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation.

Successful Internal Audit Practices

The following areas were identified as operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these items provides a view on how the Internal Audit Activity is doing in a leading practice manner when compared to other internal audit activities. Successful internal audit practices identified are summarized and detailed in the following sections of this report:

- Standard 1230 – Continuing Professional Development – Internal auditors enhance their knowledge, skills, and other competencies through continuing professional development.
- Standard 2210 – Engagement Objectives – Internal auditors conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives reflect the results of this assessment.
- Standard 2420 – Quality of Communications – Communications are accurate, free from errors and distortions, and are true to the underlying facts. In addition, communications are objective, fair, impartial, and unbiased, and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances.
- Standard 2500 – Monitoring Progress – The Chief Audit Executive has established 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.

Gaps to Conformance

The following areas were identified as operating in a manner that falls short of achieving one or more major objectives, and attains an opinion of “partially conforms” or “does not conform” to the Standards and the Code of Ethics. These items will include recommendations for actions needed to be “generally in conformance,” and will include an action plan to address the gap. Gaps to conformance with the Standards and the Code of Ethics identified are summarized and detailed in the following sections of this report:

- Standard 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter – The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing,

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Definition of Internal Auditing, Code of Ethics, and the Standards are not recognized in the internal audit charter.

- Standard 1320 – Reporting on the Quality Assurance and Improvement Program – The results of the previous external quality review were not communicated to senior management and the Board of Supervisors.

Opportunities for Continuous Improvement

Observations for opportunities are to enhance the efficiency or effectiveness of the Internal Audit Activity's infrastructure of processes. These items do not indicate a lack of conformance with the Standards and the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the Standards and the Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities. A management response and an action plan to address each opportunity noted are normally included. Opportunities for continuous improvement identified are summarized and detailed in the following sections of this report:

- Standard 1000 – Purpose, Authority, and Responsibility – The internal audit charter is not periodically reviewed by the Chief Audit Executive and presented to senior management and the Board of Supervisors for approval .
- Standard 1210 – Proficiency and Due Professional Care – Internal auditors have some knowledge of key information technology risks and controls, and make use of some technology-based audit techniques. However, the Internal Audit Activity would benefit by employing an auditor with an information technology background or certification, or send current personnel to extensive training in auditing information technology controls.
- Standard 2010 – Planning – The Internal Audit Activity plan of engagements is not based on a documented risk assessment undertaken at least annually. This is due to their strict conformance with Government Code 25250, which requires the Internal Audit Activity to biennially audit every department with the county.

Detail – Successful Internal Audit Practices

1. Standard 1230 – Continuing Professional Development – Internal auditors enhance their knowledge, skills, and other competencies through continuing professional development.
 - Continuing education is supported by management.
 - All internal audit activity members are required to have at least 20 hours continuing education each year or more when required by certification. Training needs are identified by management and scheduled accordingly.
 - All certificate of completion and training hours are recorded into a database and monitored by management.
 - Internal Audit members are all members of The Institute of Internal Auditors and receive guidance on standards, best practices and implementation guides through email, website, and by attending trainings.
2. Standard 2210 – Engagement Objectives – Internal auditors conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives reflect the results of this assessment.
 - A preliminary brainstorming session is conducted at the beginning of an audit. Key risks are discussed and identified from the following areas: operational, financial, regulatory, fraud, information technology, and environmental. These risks, along with questions to answer, are well documented.
 - Preliminary fieldwork is conducted which includes walkthroughs and limited testing. This information is used to create a risk assessment matrix. The matrix identifies all risks discussed in the preliminary brainstorming session, the inherent risk level, all mitigating controls to the risk, and the residual risk level.
 - The audit program is created and reviewed by management based on the risks identified.
3. Standard 2420 – Quality of Communications – Communications are accurate, free from errors and distortions, and are true to the underlying facts. In addition, communications are objective, fair, impartial, and unbiased, and are the result of a fair minded and balanced assessment of all relevant facts and circumstances.
 - Communications include the engagement's objectives, scope, and results.

Report on Self-Assessment: Riverside County Auditor-Controller's Office Internal Audit Activity, Quality Assurance Improvement Plan

- Standard elements in the engagement reports include the following: transmittal letter, executive summary, and results section. Each results section contains the following: background, objective, audit methodology, finding, and recommendation.
 - Observations are supported by work papers and reviewed by management.
 - The final communication of engagement results includes applicable conclusions, as well as applicable recommendations and/or action plans.
4. Standard 2500 – Monitoring Progress – The Chief Audit Executive has established 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.
- Follow up audits are conducted on all audits that have findings to ensure recommendations have been implemented.
 - Limited testing procedures are performed to verify recommendations have been implemented.
 - A final report is sent to the Board of Supervisors, Executive Office, and the Grand Jury that identifies each recommendation, and whether the recommendation has been implemented.

Detail – Gaps to Conformance with the Standards or the Code of Ethics

1. Standard 1010 – Communication and Approval – The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and the *Standards* are not recognized in the internal audit charter.

- The Internal Audit Activity has an internal audit charter but the charter does not specifically identify the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and the *Standards*.

Action Plan: Update the internal audit charter to specifically include the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and the *Standards*.

2. Standard 1320 – Reporting on the Quality Assurance and Improvement Program – The results of the previous external quality review were not communicated to senior management and the board.

- An external quality review was performed by Orange County issued in 2014 for the review period of July 1, 2011, through June 30, 2012.
- Disclosures including the qualifications and independence of the assessment team, including potential conflicts of interest were not communicated to senior management and the Board of Supervisors.
- The conclusions of the assessment team were not communicated to senior management and the board of supervisors.
- Corrective action plans identified by the assessment team were not communicated to senior management and the Board of Supervisors.
- The assessment team's evaluation with respect to the degree of conformance was not communicated to senior management and the Board of Supervisors.

Action Plan: Ensure the results on the next external quality assessment are communicated to senior management and to the Board of Supervisors.

Detail – Opportunities for Continuous Improvement

1. Standard 1000 – Purpose, Authority, and Responsibility – The internal audit charter is not periodically reviewed by the Chief Audit Executive and presented to senior management and the Board of Supervisors for approval.

Action Plan: Update the operation manual to include a procedure for periodically reviewing the internal audit charter and presenting it to senior management and the Board of Supervisors for Approval.

2. Standard 1210 – Proficiency and Due Professional Care – Internal auditors have some knowledge of key information technology risks and controls, and make use of some technology-based audit techniques. However, the Internal Audit Activity would benefit by employing an auditor with an information technology background or certification.

Action Plan: Add a position in the budget for an information technology internal auditor, or use the training budget to send current personnel to extensive audit related training in information technology controls.

3. Standard 2010 – Planning – The Internal Audit Activity plan of engagements is not based on a documented risk assessment undertaken at least annually This is due to their strict conformance with Government Code 25250, which requires the Internal Audit Activity to biennially audit every department with the county.

Action Plan: Work towards creating an audit plan based on a documented risk assessment process undertaken at least annually.

Report on Self-Assessment: Riverside County Auditor-Controller's Office Internal Audit Activity, Quality Assurance Improvement Plan

Attachment A
Evaluation Summary and Rating Definitions

	GC	PC	DNC
Overall Evaluation	GC		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility		PC	
1010	Recognizing Mandatory Guidance in the Internal Audit Charter			DNC
1100	Independence and Objectivity	GC		
1110	Organizational Independence	GC		
1111	Direct Interaction with the Board	GC		
1112	Chief Audit Executive Roles Beyond Internal Auditing	GC		
1120	Individual Objectivity	GC		
1130	Impairment to Independence or Objectivity	GC		
1200	Proficiency and Due Professional Care	GC		
1210	Proficiency		PC	
1220	Due Professional Care	GC		
1230	Continuing Professional Development	GC		

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1300	Quality Assurance and Improvement Program	GC		
1310	Requirements of the Quality Assurance and Improvement Program	GC		
1311	Internal Assessments	GC		
1312	External Assessments	GC		
1320	Reporting on the Quality Assurance and Improvement Program			DNC
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	GC		
1322	Disclosure of Nonconformance	GC		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	GC		
2010	Planning		PC	
2020	Communication and Approval	GC		
2030	Resource Management	GC		
2040	Policies and Procedures	GC		
2050	Coordination and Reliance	GC		
2060	Reporting to Senior Management and the Board	GC		

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2070	External Service Provider and Organizational Responsibility for Internal Auditing	GC		
2100	Nature of Work	GC		
2110	Governance	GC		
2120	Risk Management	GC		
2130	Control	GC		
2200	Engagement Planning	GC		
2201	Planning Considerations	GC		
2210	Engagement Objectives	GC		
2220	Engagement Scope	GC		
2230	Engagement Resource Allocation	GC		
2240	Engagement Work Program	GC		
2300	Performing the Engagement	GC		
2310	Identifying Information	GC		
2320	Analysis and Evaluation	GC		
2330	Documenting Information	GC		
2340	Engagement Supervision	GC		
2400	Communicating Results	GC		

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2410	Criteria for Communicating	GC		
2420	Quality of Communications	GC		
2421	Errors and Omissions	GC		
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	GC		
2431	Engagement Disclosure of Nonconformance	GC		
2440	Disseminating Results	GC		
2450	Overall Opinions	GC		
2500	Monitoring Progress	GC		
2600	Communicating the Acceptance of Risks	GC		

Code of Ethics		GC	PC	DNC
	Code of Ethics	GC		

Attachment B Rating Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.