Internal Audit Quality Assessment
Presented to:

Harris County

May 2021

The Institute of Internal Auditors

IIA Quality Services, LLC

Harris County
Internal Audit

It is our overall opinion that Internal Audit generally conforms with the *Standards* and the IIA Code of Ethics.

<u>This level of conformance is the top rating</u> and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing and the Definition of Internal Auditing

Governance	
Standard	**Rating**
1000	GC
1100	GC
1300	GC
Code of Ethics	GC

Staff	
Standard	**Rating**
1200	GC

Management	
Standard	**Rating**
2000	GC
2100	GC
2450	GC
2600	GC

Process	
Standard	**Rating**
2200	GC
2300	GC
2400	GC
2500	GC

Thank you for the opportunity to be of service to Internal Audit. We will be pleased to respond to further questions concerning this report and furnish any desired information.

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The Institute of Internal Auditors

IIA Quality Services, LLC

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List of Acronyms

Acronym	Description
CAATs	Computer-Assisted Audit Techniques
CAE	Chief Audit Executive
Core Principles	Core Principles for the Professional Practice of Internal Auditing
CPE	Continuing Professional Education
EQA	External Quality Assessment
FWA	Fraud, Waste, and Abuse
HHS	Harris Health System
IIA	The Institute of Internal Auditors
Internal Audit	Harris County Internal Audit Activity
IPPF	International Professional Practices Framework
IT	Information Technology
QAIP	Quality Assurance and Improvement Program
Quality Assessment Manual	*Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition*
Standards	*International Standards for the Professional Practice of Internal Auditing*
SWOT	Strengths, Weaknesses, Opportunities, and Threats

Executive Summary

Executive Summary

Under the *International Standards for the Professional Practice of Internal Auditing (“Standards”),* an external quality assessment (“EQA”) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The Harris County internal audit activity (“Internal Audit”) in consultation with the Harris County Purchasing Agent, selected The Institute of Internal Auditors (“IIA”) Quality Services, LLC to lead their review. The EQA took place virtually during the weeks of May 3 through May 14, 2021, and the final conclusions made by the independent assessment team were as of May 14, 2021 – the last date of the fieldwork phase of the EQA. The qualified assessment team who performed this EQA demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the *Standards*.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact upon the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions.

All information included in this report is proprietary and confidential and is intended for Harris County use only; and may not be distributed to any other third party, other than your regulator or external auditor, without the prior written consent of The IIA Quality Services, LLC.

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

It is our overall opinion that Internal Audit generally conforms with the *Standards* and the IIA Code of Ethics. This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing (“Core Principles”) and the Definition of Internal Auditing.

A detailed list of conformance with individual *Standards* and the IIA Code of Ethics is shown on page 10 of this report. Upon issuance of this report, Internal Audit may use the terms “Conforms with the *International Standards for the Professional Practice of Internal Auditing”* and “Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing”*.

The IIA’s *Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition (“Quality Assessment Manual”)* suggests a scale of three ratings, “generally conforms,” “partially conforms,” and “does not conform.” “Generally Conforms” means the assessor or 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 *Standards* and the IIA Code of Ethics in all material respects. Detailed definitions for rating criteria associated with “Generally Conforms”, “Partially Conforms”, and “Does Not Conform” are described in Attachment A found on page 31 of this report and are consistent with the guidance provided by the IIA in their *Quality Assessment Manual.*

Executive Summary

Objectives of the EQA

The principal objectives of the EQA were to:

- assess Internal Audit conformance with the *Standards* and the IIA Code of Ethics,
- assess the effectiveness of Internal Audit in providing assurance and advisory services to the County Auditor, the Audit Review Committee, senior stakeholders within Harris County, and other interested parties, and
- identify opportunities, offer recommendations for improvement, and provide counsel to Internal Audit for improving their performance and services and promoting their image and credibility.

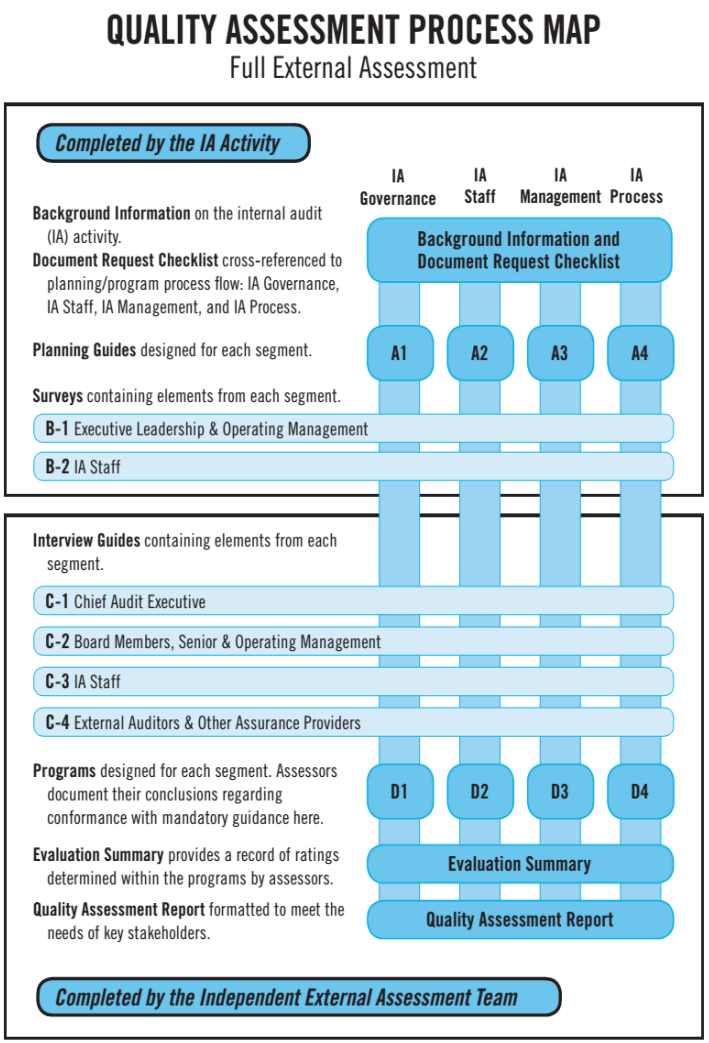
Scope of the EQA

The scope of this EQA included Internal Audit, as set forth in the Internal Audit Charter approved by the County Auditor. The Internal Audit Charter defines the purpose, authority, responsibilities, and accountabilities of Internal Audit.

Methodology of the EQA

To accomplish the objectives, the independent assessment team:

- reviewed information prepared by Internal Audit at the independent assessment team's request,
- conducted interviews with selected key stakeholders of Internal Audit including the County Auditor, a representative of the County Judge's office, several senior stakeholders of the Harris Health System ("HHS"), the Chief Audit Executive ("CAE"), and the HHS Audit Director,
- reviewed a sample of audit projects and associated work papers and reports,
- reviewed survey data received from Internal Audit stakeholders – survey process conducted by the IIA,
- reviewed benchmark data, and
- prepared diagnostic tools consistent with the methodology established for an EQA in the IIA *Quality Assessment Manual.*



The Institute of Internal Auditors

IIA Quality Services, LLC

Executive Summary
Observations Specific to Internal Audit

Overall

Internal Audit generally conforms with the *Standards* and the IIA Code of Ethics. This level of conformance is the top rating and demonstrates a clear intent and commitment to achieving the Core Principles and the Definition of Internal Auditing. Internal Audit operates effectively in a very dynamic environment, with changing and emerging risks. Their ability to adapt and be responsive to change, combined with their ability to leverage insight on risks impacting the organization into focused audit plans, will continue to be critical to their success and value to Harris County. Internal Audit is well-respected and highly regarded by senior stakeholders within Harris County. The CAE has established and is executing a Quality Assurance and Improvement Program ("QAIP") that demonstrates a clear commitment to continuous improvement and alignment with the *Standards* and the IIA Code of Ethics. The Internal Audit annual risk assessment process focuses activities in areas of highest risk and impact consistent with the strategies, objectives, and risks of Harris County. Internal Audit is a critical component of the Harris County governance structure, and they operate as an effective third line of defense that appropriately monitors risk management and control activities across the organization. The Internal Audit methodology supports planning, fieldwork, reporting, and monitoring processes for engagements identified during annual audit planning.

Attribute Standards

Internal Audit has the infrastructure in place to support sustainability of internal audit processes in a consistent and quality manner. The Internal Audit Charter is foundational to all their activities and appropriately defines their purpose, authority, responsibilities, and accountabilities within Harris County. The functional and administrative reporting relationships of the CAE support organizational independence and objectivity. The nature of the functional reporting relationship to the County Auditor is specifically described in the Internal Audit Charter and is consistent with oversight responsibilities described in the *Standards*. The Internal Audit Charter specifically recognizes that the Core Principles, the IIA Code of Ethics, the *Standards*, and the Definition of Internal Auditing are mandatory in nature. Independence and objectivity of Internal Audit are supported by language in the Internal Audit Charter and Internal Audit Manual. Internal Audit management and staff collectively possess the knowledge, skills, and competencies necessary to demonstrate professional proficiency. Work is performed with due professional care that includes an appropriate level of supervisory review and approval. Internal Audit embraces the use of technology and Computer-Assisted Audit Techniques ("CAATs") and is working to enhance and expand their use to support risk assessment and planning activities, as well as for the execution of individual audit engagements. A comprehensive QAIP has been established to meet requirements of the *Standards*. The QAIP is documented at a level of detail that supports consistency and sustainability of its execution. Internal assessment includes an on-going monitoring process to promote quality on an audit-by-audit basis with results communicated to the County Auditor and the Audit Review Committee on a quarterly basis. A periodic internal assessment component is being executed in periods between external assessments and is performed in a holistic manner to evaluate and conclude on conformance with the *Standards* and the IIA Code of Ethics. The last external assessment for Internal Audit was conducted in 2006 so the current EQA is being performed outside the five-year requirement of the *Standards*. The CAE was clearly the champion for the current EQA to be performed. Results of internal assessments are communicated to the County Auditor and the Audit Review Committee in timeframes established by the *Standards*. The results of this EQA will be communicated upon completion.

Executive Summary
Observations Specific to Internal Audit

Performance Standards

Internal Audit is managed effectively – processes and procedures support consistency, quality, and sustainability. A vision, mission, and associated objectives have been established for Internal Audit. A multi-year strategic plan specific to Internal Audit might be developed to support the very dynamic nature of Harris County and to guide the activity in a proactive, thoughtful, systematic, and practical manner. This strategic plan should be based upon a Strengths, Weaknesses, Opportunities, and Threats ("SWOT") analysis to support and identify initiatives for the plan. The annual audit plan is supported by a risk assessment process that incorporates broad-based input from Internal Audit stakeholders including the County Auditor and the Audit Review Committee. The annual audit plan, and significant changes to the plan, are presented to the County Auditor for review and approval and to the Audit Review Committee for review. The annual audit plan is consistent with the entity-wide view of risk and is focused on the areas of highest risk, impact, and relevance to Harris County. Internal Audit manages resources effectively to align resource levels and competencies with annual audit plan objectives and requirements. Documentation of policies and procedures support consistency, quality, and sustainability of their execution. Internal Audit actively coordinates activities with other providers of assurance for Harris County including but not limited to Compliance and Information Technology ("IT") Security. Periodic reports to the County Auditor and the Audit Review Committee effectively communicate Internal Audit activities. Internal Audit appropriately balances their focus between governance, risk management, and control activities consistent with the Nature of Work *Standards.* Engagement level planning is supported by engagement level risk assessment to focus audit activities in areas of highest risk and impact. Work paper documentation supports linkage between engagement objectives, risks, controls, work programs, and reports. Supervisory review and approval are consistently documented within the work papers at the appropriate times during the engagement. The QAIP includes a quality review process to support consistency, quality, and sustainability of Internal Audit engagement-level process execution. Results of engagements are appropriately communicated to senior stakeholders within Harris County, the County Auditor, and the Audit Review Committee. An effective follow-up process is in place to track observations reported through to resolution.

Executive Summary

Conformance Summary – *Standards* and the IIA Code of Ethics

		GC	PC	DNC
OVERALL		X		

ATTRIBUTE STANDARDS		X		
1000	**Purpose, Authority, and Responsibility**	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	**Independence and Objectivity**	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200	**Proficiency and Due Professional Care**	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	**Quality Assurance and Improvement Program**	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments		X	
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	X		
1322	Disclosure of Nonconformance	X		

PERFORMANCE STANDARDS		X		
2000	**Managing the Internal Audit Activity**	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	**Nature of Work**	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	**Engagement Planning**	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programs	X		
2300	**Performing the Engagement**	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	**Communicating Results**	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	**Monitoring Progress**	X		
2600	**Communicating the Acceptance of Risks**	X		

IIA CODE OF ETHICS	X		

The Institute of Internal Auditors

IIA Quality Services, LLC

Executive Summary

Key Observations

The independent assessment team identified fifteen areas where Internal Audit is operating in a successful internal audit practice manner, one gap to conformance with the *Standards*, and eleven opportunities for continuous improvement to enhance efficiency and effectiveness of Internal Audit processes or infrastructure. Detailed observations, recommendations, and Internal Audit responses to the gap to conformance with the *Standards* and opportunities for continuous improvement are included in the following section of this report.

Successful Internal Audit Practices Noted	
Standard 1000	***Purpose, Authority, and Responsibility*** – The Internal Audit Charter is comprehensive and consistent with the mandatory elements of the International Professional Practices Framework ("IPPF").
Standard 1111	***Direct Interaction with the Board –*** Internal Audit management has an appropriate and high level of interaction with the County Auditor and the Audit Review Committee.
Standard 1210	***Proficiency –*** Internal Audit management and staff are highly qualified, credentialed, experienced, and collectively possess the skills required to perform Internal Audit responsibilities.
Standard 1210	***Proficiency –*** Internal Audit uses an internal auditing competency framework to support talent and resource management activities within Internal Audit and to demonstrate professional proficiency.
Standard 1230	***Continuing Professional Development –*** Internal Audit demonstrates a commitment to continuing professional development for their management and staff.
Standard 1311	***Internal Assessments –*** The CAE is executing an effective ongoing monitoring of performance process, using a balanced scorecard, to monitor performance of Internal Audit and to drive quality and continuous improvement. The use of checklists and templates adds to overall quality of engagements.
Standard 1311	***Internal Assessments –*** Periodic internal assessment is performed in a holistic manner to evaluate conformance with the *Standards* and the IIA Code of Ethics in periods between external assessments.
Standard 2010	***Planning –*** Internal Audit has an annual risk assessment and audit planning process that incorporates input from senior stakeholders, the County Auditor, and the Audit Review Committee to focus engagements in areas of highest risk and impact to Harris County.
Standard 2030	***Resource Management –*** Internal Audit actively monitors and manages resources, skills, and competencies linked to annual audit plan objectives to ensure alignment with Harris County strategies, objectives, risks, and changing Internal Audit requirements.
Standard 2040	***Policies and Procedures –*** The Internal Audit Manual documenting the underlying policies, procedures, and infrastructure supporting Internal Audit is especially well done.

Executive Summary

Key Observations

Successful Internal Audit Practices Noted	
Standard 2110	***Governance –*** Internal Audit plays an active and appropriate role in affecting good governance practices within Harris County.
Standard 2120	***Risk Management –*** Internal Audit effectively participates in risk management activities within Harris County.
Standard 2201	***Planning Considerations –*** Internal Audit has established an effective engagement planning process to focus audits in areas of highest risk and impact.
Standard 2330	***Documenting Information –*** Work papers for individual audit engagements were documented in a complete, consistent, and high-quality manner.
Standard 2500	***Monitoring Progress –*** An effective monitoring process is in place to ensure that observations included in engagement reports are appropriately addressed by management in a manner consistent with the action plans and timeframes described and reported.

Gap to Conformance with the *Standards* Noted	
Standard 1312	***External Assessments –*** Conduct an EQA at least once every five years on a going-forward basis to align with the requirement of the *Standards*.

Executive Summary

Key Observations

Opportunities for Continuous Improvement Noted	
Standard 1000	***Purpose, Authority, and Responsibility*** – Consider enhancing the governance process related to the Internal Audit Charter to support oversight of Internal Audit by the County Auditor and the Audit Review Committee.
Standard 1010	***Recognizing Mandatory Guidance in the Internal Audit Charter –*** Consider enhancing the Internal Audit Charter by including a reference to other non-mandatory guidance included in the IPPF.
Standard 1112	***Chief Audit Executive Roles Beyond Internal Auditing –*** Consider adding language to the Internal Audit Charter that specifically describes the role of the CAE related to leading investigations related to the Fraud, Waste, and Abuse ("FWA") Program.
Standard 1120	***Individual Objectivity –*** Consider enhancing oversight of individual objectivity of Internal Audit management and staff by confirming on an annual basis that they are aware of and agree to abide by the requirements of the *Standards* and the IIA Code of Ethics. Internal Audit identified this item in their planning materials for this EQA.
Standard 1220	***Due Professional Care –*** Continue to embrace the use of technology and CAATS to enhance efficiency and effectiveness of Internal Audit risk assessment, planning, and engagement execution processes.
Standard 1300	***Quality Assurance and Improvement Program –*** Update documentation of the QAIP in the Internal Audit Manual to reflect changes in the *Standards* and to support consistency, quality, and sustainability of its execution.
Standard 1311	***Internal Assessments –*** Consider enhancing the periodic internal assessment process by using the "*Core Principles Effectiveness Framework*" to demonstrate the effectiveness and maturity of Internal Audit related to the Core Principles.
Standard 2000	***Managing the Internal Audit Activity –*** Consider defining and executing a multi-year strategic plan for Internal Audit that supports the very dynamic nature of Harris County and that will guide activities of Internal Audit in a proactive, thoughtful, systematic, and practical manner.
Standard 2020	***Communication and Approval –*** Consider enhancing presentation of the annual audit plan by communicating the resource requirements needed to meet annual audit plan objectives to the County Auditor and the Audit Review Committee in a manner that provides insight into the potential impact of resource limitations.
Standard 2050	***Coordination and Reliance –*** Consider enhancing the Internal Audit risk assessment and audit planning process by providing an assurance map that describes coverage of risk between Internal Audit and other providers of assurance for Harris County.
Standard 2410	***Criteria for Communicating –*** Consider enhancing the effectiveness and impact of internal audit reporting by communicating the significance for each observation reported.

Detailed Observations

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 1000 Purpose, Authority, and Responsibility – The Internal Audit Charter is comprehensive and consistent with the mandatory elements of the IPPF.	We specifically note the following successful practices demonstrated in the Internal Audit Charter: • The charter is reviewed and approved on an annual or as needed basis by the County Auditor. As a result, the charter is updated in a timely manner when changes in the IPPF become effective. Additionally, this demonstrates an appropriate "tone at the top" related to the County Auditor fiduciary oversight of Internal Audit. • The charter appropriately establishes the functional and administrative reporting relationships of the CAE and specifically describes the nature of the functional reporting relationship of Internal Audit to the County Auditor with additional oversight provided by the Audit Review Committee. Examples of functional reporting are consistent with examples and requirements included in the *Standards*. • The charter requires the CAE to communicate the organizational independence of Internal Audit to the County Auditor and the Audit Review Committee on an annual basis. • The charter positively confirms the requirement for Internal Audit to operate in an independent and objective manner. Language requires adherence to the *Standards* and the IIA Code of Ethics. • The charter describes the requirement for the CAE to establish and maintain a QAIP that includes internal and external assessments, as well as communication of results. Communication requires a conclusion on conformance with the *Standards* and the IIA Code of Ethics. • The charter specifically defines the difference between assurance and consulting activities performed by Internal Audit. • The charter recognizes the mandatory nature of the Core Principles, the IIA Code of Ethics, the *Standards*, and the Definition of Internal Auditing.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 1111 Direct Interaction with the Board – Internal Audit management has an appropriate and high level of interaction with the County Auditor and the Audit Review Committee.	Language in the Internal Audit Charter makes clear that Internal Audit generally and the CAE specifically have full, free, and unrestricted access to the County Auditor and the Audit Review Committee. Interaction with the CAE takes place during Audit Review Committee meetings. The CAE meets frequently with the County Auditor between Audit Review Committee meetings. The Internal Audit Charter specifies that the CAE will have unrestricted access to, and communicate and interact directly with the County Auditor, including private meetings without County Officials present. In addition to the CAE, Internal Audit management periodically attend meetings with the County Auditor and Audit Review Committee to present materials pertinent to their areas of responsibility within Harris County. Exposure to the County Auditor and the Audit Review Committee is an exceptional way to develop management in terms of executive level interface and communication skills and provides the County Auditor and the Audit Review Committee with an opportunity to gain insight into individual Internal Audit management backgrounds, skills, and experience. Frequent and direct interaction between Internal Audit management and the County Auditor and the Audit Review Committee is a successful and common internal audit practice that supports the fiduciary oversight responsibility of the County Auditor and the Audit Review Committee, continuing professional development for Internal Audit management, and succession planning for the CAE.
Standard 1210 Proficiency – Internal Audit management and staff are highly qualified, credentialed, experienced, and collectively possess the skills required to perform Internal Audit responsibilities.	There is a good blend of skills from a technical, financial, and operational perspective and individuals have professional certifications including the Certified Internal Auditor, Certified Government Auditing Professional, Certified Public Accountant, Certified Fraud Examiner, and Certified Information System Auditor. Proficiency is supported by a commitment to training and professional development that includes Continuing Professional Education ("CPE") to meet certification requirements. Third-party subject matter experts are used on an as-needed basis to complement skills and competencies within Internal Audit.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 1210 Proficiency – Internal Audit uses an internal auditing competency framework to support talent and resource management activities within Internal Audit and to demonstrate professional proficiency.	Talent management requires an overall evaluation of skills and competencies within Internal Audit to meet annual audit plan objectives. These skill and competency requirements are compared to those in place for Internal Audit management and staff and gaps are addressed through talent and resource management processes that include training and continuing professional development as well as the use of third-party experts. A useful tool to support these activities and to demonstrate professional proficiency is an internal auditing competency framework. The use of competency frameworks is a successful internal audit practice that establishes a baseline of knowledge, skills, and experience for each level within Internal Audit. Competency frameworks supplement job descriptions for Internal Audit management and staff and can be used to support: • training and professional development activities, • onboarding of new staff into Internal Audit, • scheduling of resources for Internal Audit engagements, • decisions regarding the use of third-party subject matter experts for Internal Audit engagements – especially related to IT skills and competencies, • identification of professional certification requirements to support professional proficiency, • decisions regarding hiring of new staff into Internal Audit, and • succession planning for the CAE and key professionals within Internal Audit. These tools are especially relevant for organizations experiencing very dynamic change, such as Harris County. Examples of critical knowledge and skills that are normally included in an internal auditing competency framework are: • the defined internal auditing methodology, • the IPPF, including the requirements of the *Standards* and the IIA Code of Ethics, • awareness of fraud indicators and internal auditor responsibilities related to fraud, • IT risk and control concepts, • the use of data analytics and technology in the internal auditing process, and • organization specific financial reporting, compliance, and operations considerations. The IIA Practice Guides "*Talent Management*" and "*The IIA Global Internal Audit Competency Framework"* provide professional guidance related to the use of internal auditing competency frameworks.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 1230 Continuing Professional Development – Internal Audit demonstrates a commitment to continuing professional development for their management and staff.	Continuing professional development within Internal Audit requires Internal Audit management and staff to enhance their knowledge, skills, and other competencies. The independent assessment team noted the following: • Individual development plans are incorporated into the annual review process and focus on specific skill requirements. • Certification for Internal Audit management demonstrates professional proficiency. • An appropriate level of CPE is encouraged in support of certification. • A performance evaluation is conducted consistent with Harris County requirements. Performance feedback is provided to management and staff at the conclusion of each engagement. • Performance and compensation of the CAE is approved by the County Auditor as specified in the Internal Audit Charter. • Participation in professional organizations such as the IIA encourages collaboration and sharing from an internal auditing perspective.
Standard 1311 Internal Assessments – The CAE is executing an effective ongoing monitoring of performance process, using a balanced scorecard, to monitor performance of Internal Audit and to drive quality and continuous improvement. The use of checklists and templates adds to overall quality of engagements.	Defining, implementing, measuring, and reporting key performance indicators, using a balanced scorecard, is a successful internal audit practice that promotes continuous improvement of Internal Audit processes. The balanced scorecard used by Internal Audit incorporates metrics relevant to the efficient and effective performance of Internal Audit. Results reported on the balanced scorecard are included as a component of the periodic reporting process to the County Auditor and the Audit Review Committee and supports oversight of Internal Audit by those entities. The IIA Practice Guide *"Measuring Internal Audit Effectiveness and Efficiency"* offers professional guidance related the development and use of balanced scorecards. Internal Audit effectively uses checklists and templates, embedded within their work papers, to ensure projects are planned and executed in a manner consistent with the defined methodology and that all required elements are considered. The checklists and templates used by Internal Audit are comprehensive and are updated to address specific requirements of the area under review. The use of checklists and templates to plan, execute, and administer projects, together with required supervisory review and approval: • ensures consistent application of the Internal Audit methodology, • contributes to a high level of quality and consistency within projects, • provides a mechanism to document appropriate supervisory review and approval for critical elements within the work papers, • supports ongoing monitoring requirements of the QAIP, and • demonstrates due professional care in conducting internal audits.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 1311 Internal Assessments – Periodic internal assessment is performed in a holistic manner to evaluate conformance with the *Standards* and the IIA Code of Ethics in periods between external assessments.	Periodic internal assessment is performed in a holistic manner that includes an evaluation of all aspects of the IIA Code of Ethics and the *Standards*. The evaluation is performed by a qualified and independent individual(s) from within Internal Audit. The most recent periodic internal assessment provided insight into conformance with the *Standards* and importantly went beyond evaluating assurance with these elements. The assessment also looked to identify opportunities for continuous improvement in a comprehensive manner. Results of the periodic internal assessment were appropriately reported to the County Auditor and the Audit Review Committee upon completion of the review.
Standard 2010 Planning – Internal Audit has an annual risk assessment and audit planning process that incorporates input from senior stakeholders, the County Auditor, and the Audit Review Committee to focus engagements in areas of highest risk and impact to Harris County.	Internal Audit generally, and the CAE specifically, have a "seat at the table" within the organization to appropriately capture information related to emerging and/or changing risk profiles while maintaining their independence and objectivity. This "seat at the table" is primarily accomplished by formal and informal interaction with senior stakeholders within Harris County, the County Auditor, and the Audit Review Committee. They actively coordinate with other assurance activities within Harris County including but not limited to Compliance and IT Security. Internal Audit management and staff participate in various professional organizations which also provides insight into emerging risks being encountered by other organizations. The annual audit plan is consistent with the enterprise-wide view of risk and strategic objectives and audits are focused to evaluate specific objectives related to mitigation of risk. Broad-based input into the identification and prioritization of engagements in the annual audit plan actively promotes the role of Internal Audit within the governance structure of Harris County. Resources and skill sets are aligned with annual audit plan objectives and requirements. An assurance map might be included in the annual audit plan presentation that links engagements in the annual audit plan with entity-level risks. Assurance maps are a useful tool to support reporting of risk coverage to the County Auditor and the Audit Review Committee. Demonstrating coverage provides assurance that the Harris County annual audit plan is aligned with the areas of highest risk and relevance to Harris County.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 2030 Resource Management – Internal Audit actively monitors and manages resources, skills, and competencies linked to annual audit plan objectives to ensure alignment with Harris County strategies, objectives, risks, and changing Internal Audit requirements.	Resource levels currently appear adequate to meet approved Internal Audit annual audit plan objectives and requirements. Actively monitoring and adjusting Internal Audit resource levels and skill sets to ensure high priority areas receive audit coverage is a successful internal audit practice that aligns resource levels with organizational strategies, objectives, and risk-appetite. This is especially critical for internal audit activities operating within a very dynamic organization such as Harris County. Factors that can exert upward pressure on staffing levels and competency requirements include: • growth or strategic changes within the organization, • changes in regulatory requirements impacting the number of required audits in the plan, • market condition related to salaries and availability of Internal Audit resources, and • changing and/or emerging risks that impact the number of higher priority projects – especially related to IT and compliance risk. Internal Audit effectively uses third-party auditors on an as needed basis to ensure resources align with annual audit plan requirements from a full time equivalent and competency perspective. Third-party resources that are a component of the annual audit plan are specifically included in the budget that is approved by the County Auditor. Internal Audit provides effective oversight and direction for all work performed by member and third-party resources.
Standard 2040 Policies and Procedures – The Internal Audit Manual documenting the underlying policies, procedures, and infrastructure supporting Internal Audit is especially well done.	The Internal Audit Manual is comprehensive and includes all required elements that are embedded in the *Standards* as well as good business practice. The manual differentiates between Harris County and Harris Health System as appropriate. The manual supports consistency, quality, and sustainability in the performance of audit work and appropriately define supporting infrastructure. It is reviewed and updated periodically to ensure changes in the IPPF are appropriately captured and incorporated. Ongoing monitoring of Internal Audit performance as a component of the QAIP supports consistency and sustainability in the execution of defined procedures. The Internal Audit Manual, as currently structured, supports on-boarding of personnel and contributes to consistency in execution of audit processes. Implementation of the defined methodology, as incorporated into the work papers, enhances consistency of planning, fieldwork, reporting, and monitoring processes for Internal Audit.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 2110 Governance – Internal Audit plays an active and appropriate role in affecting good governance practices within Harris County.	Internal Audit annual audit plans incorporate a governance component through broad communication and assessment of governance-related activities across the organization. Internal Audit is clearly viewed as an inherent part of the governance structure by the County Auditor and the Audit Review Committee, and they participate in the sharing of information across the organization to affect good governance practices. The CAE has an appropriate and effective "seat at the table" throughout the organization to ensure audit plans and strategies are aligned with the entity-wide view of risk. Engagement reports align work performed with Harris County strategies and risks. Internal Audit recommendations are focused on improving Harris County governance processes for: • making strategic and operational decisions, • overseeing risk management and control, • promoting ethics and values within the organization, • ensuring effective organizational performance management and accountability, • communicating risk and control information to appropriate areas of the organization, and • coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.
Standard 2120 Risk Management – Internal Audit effectively participates in risk management activities within Harris County.	The CAE has a "seat at the table" related to entity-wide risk. Risk assessment is completed in a systematic and thoughtful manner that ensures audit plans are aligned with entity-level risks and that emerging risks and changes to current risks are captured in a timely manner. Risk assessment is performed on an overall basis to support annual planning activities and at an engagement level to focus audit efforts in areas of highest risk and impact for the area under review. Fraud is included as specific risk criteria for annual risk assessment and for engagement level risk.

Successful Internal Audit Practices Noted

Successful Internal Audit Practice	Description
Standard 2201 Planning Considerations – Internal Audit has established an effective engagement planning process to focus audits in areas of highest risk and impact.	Engagement planning is supported by a risk assessment process with input from key stakeholders to align the work program with defined objectives and scope. Internal Audit specifically evaluates compliance and regulatory risk, strategic risk, fraud risk, and financial risk as part of the process. Risks and related controls are discussed with management during the planning process to ensure management input and concerns are considered during refinement of engagement scope and objectives. Supervisory review and approval take place and are documented during the process. Internal Audit consistently and appropriately uses risk and control documentation embedded within the work papers to link engagement planning with execution and reporting. The use of risk and control documentation is a required element of the Internal Audit methodology that is designed to document objectives, risk assessment, controls, work programs, and testing results for each engagement. This documentation is designed to link all required engagement elements in a manner that facilitates supervisory review and approval of work steps and that documents the rationale for observations included in Internal Audit reports. The consistent and effective use of risk and control documentation is a successful internal audit practice that enhances linkage between objectives, risks, evaluation of controls, and reporting within an engagement.
Standard 2330 Documenting Information – Work papers for individual audit engagements were documented in a complete, consistent, and high-quality manner.	Observations communicated to senior stakeholders, the County Auditor, and the Audit Review Committee were fully supported and linked to the underlying work papers. Documentation of information within the work papers – including planning, work programs, and supervisory review and approval – was maintained across the projects reviewed and in conformance with the defined methodology. Status of engagements was formally reported to clients on a periodic basis – creating transparency in the audit process and early validation of results. Significant client communications were routinely included and there was appropriate supervisory review and approval of all work performed. The use of checklists and templates as a component of the internal monitoring of performance component of the QAIP supports and promotes the effectiveness and overall quality of work papers.
Standard 2500 Monitoring Progress – An effective monitoring process is in place to ensure that observations included in engagement reports are appropriately addressed by management in a manner consistent with the action plans and timeframes described and reported.	All observations are assigned a priority and are tracked through to resolution by Internal Audit. The status of open action items is reported to the County Auditor and the Audit Review Committee on a periodic basis. The County Auditor and the Audit Review Committee clearly use this process to ensure reported observations are addressed in a timely manner by the organization.

Gap to Conformance with the *Standards* Noted

Gap to Conformance with the *Standards*	Internal Audit Response
Standard 1312 External Assessments – Conduct an EQA at least once every five years on a going-forward basis to align with the requirement of the *Standards*. The last EQA that concluded on conformance with the *Standards* and the IIA Code of Ethics was conducted in 2006. Since the last EQA was performed in 2006, the current EQA is being performed outside the five-year requirement of this Standard. The CAE was clearly the champion for this EQA to be performed. Upon conclusion of this EQA, Internal Audit will be in full conformance with this Standard and no additional action needs to be taken.	We will conduct an EQA at least once every five years on a going-forward basis. HCIA will complete by May 2026.

The Institute of Internal Auditors

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Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
Standard 1000 Purpose, Authority, and Responsibility – Consider enhancing the governance process related to the Internal Audit Charter to support oversight of Internal Audit by the County Auditor and the Audit Review Committee. The Internal Audit Charter clearly establishes the purpose, authority, responsibilities, and accountabilities of Internal Audit and is consistent with the mandatory elements of the IPPF. Consider developing and using an "Internal Audit Charter Matrix" to monitor and report the status of requirements embedded in the Internal Audit Charter. This matrix should specifically describe requirements related to organizational independence and objectivity as well as each responsibility defined in the Internal Audit Charter. The matrix should further describe the actions needed to demonstrate the requirement was met, specific deliverables related to each objective, the frequency or due date for each objective or deliverable, and the status. This matrix should be included in materials presented by the CAE to the County Auditor and the Audit Review Committee – at least on an annual basis. Consider incorporating CAE required communications to the County Auditor and the Audit Review Committee into the document. Monitoring and reporting status related to Internal Audit Charter requirements is a successful internal audit practice that demonstrates conformance with the Internal Audit Charter. An example Internal Audit Charter Matrix was provided to Internal Audit separate from this report.	We will create a matrix for tracking and monitoring Internal Audit's compliance with requirements outlined in the Scope, Responsibility, and Quality Assurance Program sections of the HC Internal Audit Activity Charter. We will update this matrix throughout the year and include the completed matrix within the Internal Audit Annual Update to the County Auditor and the Audit Review Committee. HCIA will complete by February 28, 2022.
Standard 1010 Recognizing Mandatory Guidance in the Internal Audit Charter – Consider enhancing the Internal Audit Charter by including a reference to other non-mandatory guidance included in the IPPF. The Internal Audit Charter appropriately recognizes that the Core Principles, the IIA Code of Ethics, the *Standards*, and the Definition of Internal Auditing are mandatory in nature. Many internal audit activities are also enhancing this disclosure by including a reference to other professional guidance within their charters. Other professional guidance in the IPPF is defined as either recommended or supplemental guidance. Recommended guidance includes Implementation Guides that have been issued for each Standard. Supplemental guidance includes all Practice Guides, Global Technology Audit Guides, and Guides to the Assessment of IT Risks, and supplement guidance such as the *Model Internal Audit Activity Charter*. Recommended and supplemental guidance provide insight into how an internal audit activity might practically establish and execute Internal Audit infrastructure and processes to conform with the mandatory elements of the IPPF. Including a reference to this other professional guidance within the Internal Audit Charter is a successful internal audit practice that promotes an integrated view of professional guidance between its various components.	We will edit the Internal Audit Activity Charter section, Standards for the Professional Practice of Internal Auditing, to include the following statement: Internal Audit will also consider the International Professional Practices Framework's (IPPF) recommended and supplemental guidance for insight on how to efficiently and effectively execute compliance with the mandatory elements of the IPPF. This change will need to be approved by the County Auditor as part of the next annual review of the Charter. HCIA will complete by February 28, 2022.

Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
***Standard 1112 Chief Audit Executive Roles Beyond Internal Auditing* –** Consider adding language to the Internal Audit Charter that specifically describes the role of the CAE related to leading investigations related to the FWA Program. The CAE is responsible for leading investigations related to the FWA Program. This responsibility is consistent with the other responsibilities of the CAE related to internal auditing and is appropriate given the independence and objectivity of the CAE. This type of role and responsibility was contemplated when this new Standard was adopted in 2017 and reflects the reality that the CAE might be responsible for other activities in an organization that are complementary to the role of the CAE related to internal auditing. However, since the CAE cannot audit an activity for which she is responsible, an impairment to independence is created that must be actively managed. The Internal Audit Charter should include language that specifically describes this role and responsibility and how any impairment (actual or perceived) might be managed. Active management of impairment might include a periodic review of this process by an independent third party. Active management of impairments in fact or appearance is consistent with the spirit and intent of this Standard and provides transparency in terms of this responsibility and the safeguards in place to protect the independence and objectivity of the CAE.	We will add such language during our annual review of the Internal Audit Charter. HCIA will complete by February 28, 2022.
***Standard 1120 Individual Objectivity* –** Consider enhancing oversight of individual objectivity of Internal Audit management and staff by confirming on an annual basis that they are aware of and agree to abide by the requirements of the *Standards* and the IIA Code of Ethics. Internal Audit identified this item in their planning materials for this EQA. Currently, all Internal Audit management and staff are required to adhere to Harris County's Code of Conduct and Ethics requirements and must disclose any actual or perceived impairments to these requirements. In addition, the Internal Audit Charter and Internal Audit Manual require all internal auditors to adhere to the *Standards* and the IIA Code of Ethics and its principles of integrity, objectivity, confidentiality, and competency. Internal Audit management and staff acknowledge adherence to the Internal Audit Manual on an annual basis but there is no specific confirmation that they are aware of and agree to abide by the requirements of the IIA Code of Ethics and the *Standards*. Confirming independence and objectivity specific to their role as internal auditors and agreeing to abide by the IIA Code of Ethics is a successful internal audit practice that demonstrates a commitment to these core and foundational requirements. Disclosures, if any, should be tracked and used when scheduling engagements to avoid perceived or actual impairments to independence and objectivity.	The internal auditors' annual acknowledgement will explicitly include the Standards and the IIA Code of Ethics. In addition, Harris County Auditor's Office HR will begin obtaining Conflict of Interest acknowledgements and disclosures on an annual basis. HCIA will complete by February 28, 2022.

Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
Standard 1220 Due Professional Care – Continue to embrace the use of technology and CAATS to enhance efficiency and effectiveness of Internal Audit risk assessment, planning, and engagement execution processes. Internal Audit is working to develop and expand capabilities related to data extraction and analysis, fraud prevention / detection, network security assessments, and knowledge-sharing using technology and CAATs. They have dedicated resources within Internal Audit focused on increasing the overall level of maturity related to the use of technology and CAATs. Senior stakeholders within Harris County consistently cited data analytic capabilities as a future contributor to value within the organization. As Internal Audit raises their level of maturity related to their use of technology and data analytics, they might take advantage of advanced and innovative approaches to using technology such as artificial intelligence, robotics, and machine learning. Timely access to data across the organization, discipline to address technology and data analytics for each engagement, and training associated with data analysis tools and techniques, will continue to be critical success factors to raising the level of technology and CAATs maturity. Internal Audit recognizes that when firmly established, the use of technology and data analytics provides opportunities to: • enhance the audit process so it is faster and more efficient and effective, • enhance productivity of Internal Audit management and staff, • demonstrate due professional care when planning and performing engagements, • shorten the audit cycle time to provide more timely risk and control assurance, • support development of continuous monitoring and auditing protocols, • achieve greater audit coverage without the need to expand Internal Audit resource requirements, • audit 100% of data populations rather than a sample, • improve the quality of assurance using data and transactional analysis, and • become more predictive with regards to areas of emerging risk.	The HHS/HC IA teams include a limited number of staff who are skilled in the development and/or application of computer assisted audit techniques and healthcare processes. We will continue to develop our staff to incorporate data analytics into our annual risk assessments and audits. The HC Continuous Audit team is expanding their scope of work to include service center data analytics for all HHS/HC internal audit teams. This will be an ongoing improvement process.

Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
Standard 1300 Quality Assurance and Improvement Program – Update documentation of the QAIP in the Internal Audit Manual to reflect changes in the *Standards* and to support consistency, quality, and sustainability of its execution. All basic elements of an effective QAIP are in place and operating. However, documentation of the QAIP in the Internal Audit Manual should be updated to reflect the following: • Establish objectives to evaluate conformance with the *Standards* and the IIA Code of Ethics. Implementation guidance states that conformance with the *Standards* and the IIA Code of Ethics demonstrates a clear intent and commitment to achieving the Core Principles and the Definition of Internal Auditing – so a specific evaluation and conclusion on these elements is not needed. • Continue to specifically document the approach to ongoing monitoring of performance to include the use of a balanced scorecard. • Specifically document the approach to periodic internal assessment to include an annual and holistic evaluation of and conclusion on conformance with the *Standards* and the IIA Code of Ethics. Consider including an assessment of the effectiveness or maturity of Internal Audit related to the Core Principles. • Continue to document the requirement for an external assessment to be performed at least every five years. • Describe communication requirements to include new required disclosures of the scope and frequency of both internal and external assessments, the qualifications and independence of the assessor(s) or assessment team including potential conflicts of interest, conclusions of assessors, and corrective action plans. In addition, define the requirement to communicate the results of ongoing monitoring of performance on at least an annual basis, and the requirement to communicate the results of periodic internal assessment and external assessment when they occur.	We will update our QAIP documentation included in our audit manual to reflect the noted changes in the Standards and IIA Code of Ethics. In addition, we will document the process and timeline for internal and external assessments. Incorporating the recommended updates will provide clarity on objectives and requirements of the components of our QAIP and will ultimately make the program more robust and comprehensive. HC Quality Analyst will complete by February 28, 2022.

Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
Standard 1311 Internal Assessments – Consider enhancing the periodic internal assessment process by using the "*Core Principles Effectiveness Framework*" to demonstrate the effectiveness and maturity of Internal Audit related to the Core Principles. While a specific evaluation of Core Principles is currently not required, many internal audit activities are beginning to evaluate the Core Principles as part of their periodic internal assessment process. Core Principles were added as a mandatory element of the IPPF in 2015. A tool used by some internal audit activities for this assessment is the "*Core Principles Effectiveness Framework*" introduced in *Internal Auditor – February 2017*. This maturity framework describes the characteristics of infrastructure, process, and quality associated with differing levels of effectiveness and maturity for the Core Principles. An example of this framework, as applied to Internal Audit, is included as an attachment to this report. Alternatively, the recently issued IIA Practice Guide *"Demonstrating the Core Principles for the Professional Practice of Internal Auditing"* includes a tool to assess and communicate how Core Principles are demonstrated within an internal audit activity.	We will review both the "Core Principles Effectiveness Framework" and the tool included in the IIA Practice Guide "Demonstrating the Core Principles for the Professional Practice of Internal Auditing" and incorporate one of these into our periodic internal assessment process to demonstrate the effectiveness and maturity of Internal Audit related to the Core Principles. HC Quality Analyst will complete by February 28, 2022.
Standard 2000 Managing the Internal Audit Activity – Consider defining and executing a multi-year strategic plan for Internal Audit that supports the very dynamic nature of Harris County and that will guide activities of Internal Audit in a proactive, thoughtful, systematic, and practical manner. Internal Audit has established a vision and mission for their activity and are actively working on several initiatives to promote efficiency and effectiveness of Internal Audit processes and infrastructure. However, this effort is not part of an Internal Audit specific strategic planning process. Developing and documenting a formalized strategic plan for Internal Audit is an emerging and evolving successful practice that supports internal audit activities operating in very dynamic environments, such as Harris County. Strategic plans for an internal audit activity promote continuous improvement and contribute to sustainability of Internal Audit infrastructure and process in periods of dynamic change. The strategic plan for Internal Audit should be adjusted on an annual basis and presented to the County Auditor and the Audit Review Committee. The strategic planning process for Internal Audit should be based upon a SWOT analysis to identify initiatives for the plan and to highlight areas where active management of threats to achieving the plan are necessary. The plan should be consistent with Harris County strategic objectives. The IIA Practice Guide "*Developing the Internal Audit Strategic Plan"* provides professional guidance on strategic plans specific to an internal audit activity.	We will define and execute a multi-year strategic plan for Internal Audit. HCIA will complete by February 28, 2022.

Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
Standard 2020 Communication and Approval – Consider enhancing presentation of the annual audit plan by communicating the resource requirements needed to meet annual audit plan objectives to the County Auditor and the Audit Review Committee in a manner that provides insight into the potential impact of resource limitations. The Internal Audit annual plan approved by the County Auditor includes a list of projects to be completed and total resources needed to meet annual plan requirements. However, there is no specific information presented to evaluate the potential impact of resource limitations caused by the need for additional resources or specialized skills for additional higher risk projects not currently included in the plan. This is normally accomplished by communicating other higher risk areas not included in the current plan year with an explanation for the exclusion. Another option to communicate the potential impact of resource limitations is show a schedule of audits that might be performed with an incremental resource. Information may be included within the body of the annual audit plan or presented as an appendix supporting the plan. Approval of changes in the annual audit plan in interim periods demonstrates that the annual audit plan appropriately deals with changing and emerging risks. Communicating the potential impact of resource limitations, as required by this Standard, supports this approval process in a transparent manner that provides insight into risk appetite embedded in the Internal Audit annual audit plan.	The HC Audit Plan presentation will include resources needed for successful completion of the Audit Plan and significant risks identified during risk assessment that did not make it to the Audit Plan. Any high risks projects that are not audited due to resource limitations will be disclosed to the County Auditor and District Judges. HCIA will complete by April 30, 2022.

Opportunities for Continuous Improvement Noted

Opportunity for Continuous Improvement	Internal Audit Response
Standard 2050 Coordination and Reliance – Consider enhancing the Internal Audit risk assessment and audit planning process by providing an assurance map that describes coverage of risk between Internal Audit and other providers of assurance for Harris County. The current risk assessment and audit planning process is generally linked with the entity-wide view of risk. However, the annual audit plan does not specifically demonstrate areas of coverage and coordination between Internal Audit and other providers of assurance for Harris County. Areas of assurance within Harris County include but are not limited to Compliance and IT Security. Describing coverage using an assurance map is a successful internal audit practice that highlights the different roles between Internal Audit – a third line of defense activity and other providers of assurance that comprise the first and second lines of defense within the organization. In coordinating activities, the CAE may rely on the work of other assurance providers within the organization. Internal Audit should periodically review the scope, objectives, and results of the work performed by other providers of assurance within Harris County to meet this reliance requirement. All second-line assurance functions in place for Harris County should be included in the audit universe and reviewed on a periodic basis. Further information on effective coordination and reliance can be found in the IIA's "*The Three Lines Model – An Update of the Three Lines of Defense"* and in professional guidance found in the IIA Practice Guide "*Internal Audit and the Second Line of Defense"* and *"Coordination and Reliance – Developing an Assurance Map".*	We will consider creating an assurance map that describes the coverage of risk between the three lines model. We will continue to consider the work of other assurance providers during our annual audit planning and the execution of engagements throughout the year. HCIA will make a determination on creating an assurance map by December 31, 2022, and continue coordination with other assurance providers on an ongoing basis.
Standard 2410 Criteria for Communicating – Consider enhancing the effectiveness and impact of internal audit reporting by communicating the significance for each observation reported. Internal Audit reports currently include an overall conclusion. However, individual observations are not rated or prioritized by significance in the report. A successful internal audit practice is to provide an overall conclusion and prioritize individual observations by their relative impact on risk. This provides additional context for reported results and provides insight into the relative significance of reported results. Observations should be prioritized in terms of likelihood and impact on risk – translated into a view, for each observation, as to whether it is high, medium, or low with regards to these dimensions. Criteria used to assign likelihood and impact scores as well as high, medium, or low levels of risk should be developed in consultation with the County Auditor and the Audit Review Committee and should be included as an attachment or appendix to each report. Assigning priorities to individual observations provides context for the reported item and should link to the monitoring and follow-up process established by Internal Audit. Generally, higher priority observations require a more robust follow-up process as opposed to lower priority items.	We will consider communicating the significance of each observation within internal audit reports. We will complete our evaluation by February 28, 2022.

Attachment A
Conformance Rating Criteria

GC – "Generally Conforms" means the assessor has concluded the following:
- For individual standards, the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

PC – "Partially Conforms" means the assessor has concluded the following:
- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or IIA 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 the assessor has concluded the following:
- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant 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.

Attachment B

Stakeholder Feedback – Interviews / Interactions

SENIOR STAKEHOLDERS

- **Michael Post** *County Auditor*
- **Lance Gilliam** *County Judge's Office*
- **Dr. Esmaeil Porsa** *HHS Chief Executive Officer*
- **Michael Norby** *HHS Chief Financial Officer*
- **David Chou** *HHS Chief Information Officer*

INTERNAL AUDIT MANAGEMENT / STAFF

- **Errika Perkins** *Chief Assistant County Auditor (CAE)*
- **Sharon Smith** *HHS Audit Director*
- **Shannon Norman** *QA Specialist*

In addition to interviews and interactions with the individuals listed above, broad-based and confidential surveys were conducted by the IIA. A survey was sent to senior management and stakeholders across the organization. A separate survey was sent to Internal Audit management and staff.

Attachment B

Stakeholder Feedback – Comments Received During Interviews and Surveys

Comments below represent general themes that were expressed by more than one stakeholder in interviews or commentary to surveys or were validated by the independent assessment team through other diagnostic procedures. All interviews were conducted privately without the CAE present. All surveys were conducted in a confidential manner. Statistical results of surveys are presented separately from these comments.

Strengths (What I Like)

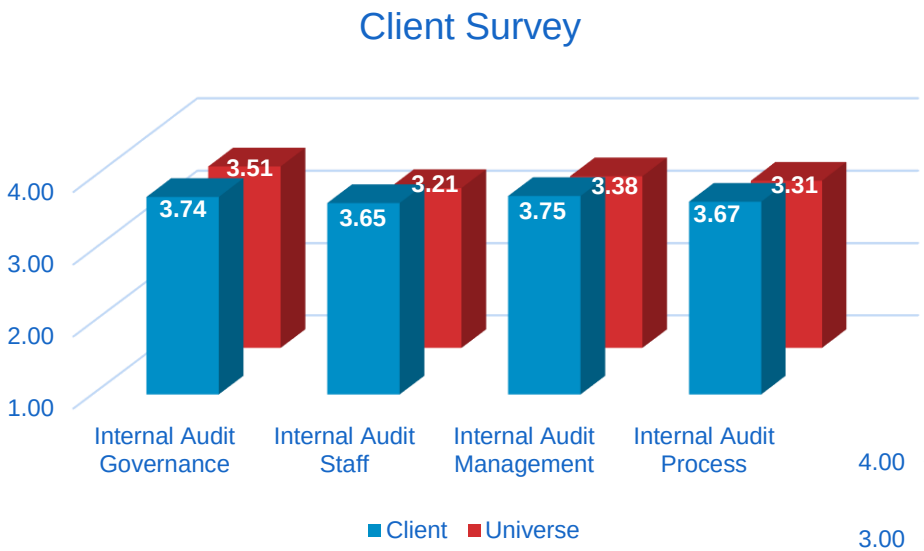
- High integrity; thoughtfulness; willingness to engage in healthy dialogue with management regarding observations and findings.
- Internal Audit operates in an independent and objective manner – they are a valuable component of the governance structure at Harris County.
- Internal Audit is a business partner – focused on value rather than "gotcha".
- I appreciate Internal Audit and the value they bring to our organization.
- Communication protocols before, during, and after the audit are excellent. There are never any surprises. They listen effectively.
- Planning of engagements is exceptional – objectives and scope make sense. They solicit and use our input.
- Internal Audit effectively communicates results of engagements to senior stakeholders including the County Auditor and the Audit Review Committee.
- Internal Audit is an organization that is always trying to get better – they are committed to continuous improvement.

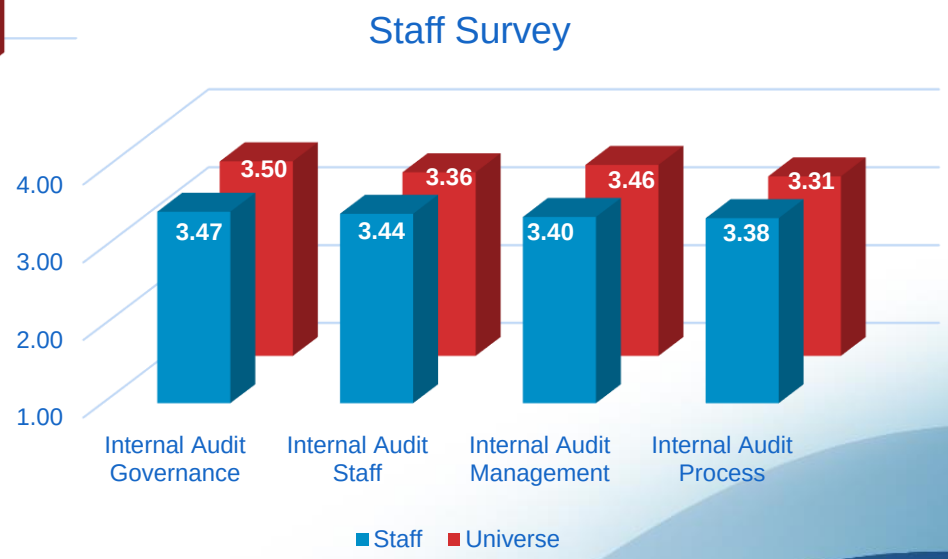
Opportunities (What Might be Improved)

- Stay on top of changing and emerging risks – especially related to information technology and compliance. Doing a good job at this but must continue to be vigilant.
- Continue to coordinate with other assurance activities within Harris County – want to make sure we are not duplicating activities.
- Continue to look for opportunities to more effectively communicate results of engagements.
- Continue efforts to expand data analysis capabilities which will enhance continuous monitoring and auditing protocols.
- Continue to enhance knowledge of technical and operational areas of Harris County to more effectively perform engagements.

Attachment B

Stakeholder Feedback - Survey Results (Summary)





Client = Weighted average of all Harris County stakeholder respondents
Universe = Weighted average of all respondents for all organizations completing survey since May 2013

4.00 = Strongly Agree
3.00 = Agree
2.00 = Disagree
1.00 = Strongly Disagree
0.00 = Don't Know / No Response

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Attachment B

Stakeholder Feedback - Client Survey Results (Detail)

Internal Audit Governance	1	2	3	4	5	6	Ave	Univ
IA activity personnel 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.	4.00	4.00	3.00	0.00	4.00	3.88	3.87	3.69
IA activity personnel exhibit the highest level of professional objectivity in performing their work, making a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	3.00	4.00	3.00	0.00	4.00	3.75	3.69	3.45
The IA activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	4.00	3.50	0.00	3.75	3.63	3.61	3.34
The integrity of the IA activity establishes confidence, providing the basis for their role as trusted advisor within our organization.	4.00	4.00	3.75	0.00	4.00	3.75	3.83	3.42
Organizational placement of the IA activity ensures its independence and ability to fulfill its responsibilities.	3.00	4.00	3.25	0.00	4.00	3.57	3.59	3.55
IA activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	3.00	4.00	3.50	0.00	4.00	3.63	3.69	3.62
						Total	3.74	3.51

LEGEND
Group 1 = Chief Audit Executive (1 of 1 Respondent)
Group 2 = Commissioner's Court Chief of Staff (1 of 5 Respondents)
Group 3 = Compliance and Audit Committee (4 of 4 Respondents)
Group 4 = Admin District Judge (0 of 1 Respondents)
Group 5 = HHS C-Suite (4 of 8 Respondents)
Group 6 = HC Department Heads + County Auditor (8 of 15 Respondents)

Ave = Weighted average of all respondents for Harris County stakeholders.
Univ = Weighted average of all respondents for all organizations completing survey since May 2013.

4.00 = Strongly Agree
3.00 = Agree
2.00 = Disagree
1.00 = Strongly Disagree
0.00 = Don't Know / No Response

The Institute of Internal Auditors
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Attachment B

Stakeholder Feedback - Client Survey Results (Detail)

Internal Audit Staff	1	2	3	4	5	6	Ave	Univ
IA activity staff and management communicate effectively (oral, written, and presentations).	4.00	4.00	3.75	0.00	4.00	3.88	3.89	3.32
IA activity staff and management keep up to date with changes in my business, our industry and relevant regulatory issues.	3.00	3.00	3.33	0.00	4.00	3.29	3.44	3.20
IA activity staff display adequate knowledge of my business processes including critical success factors.	3.00	4.00	3.50	0.00	4.00	3.50	3.61	3.12
IA activity staff exhibit effective problem identification and solution skills.	3.00	4.00	3.25	0.00	4.00	3.50	3.56	3.21
IA activity management demonstrate effective conflict resolution and negotiating skills.	4.00	4.00	3.50	0.00	4.00	3.75	3.81	3.25
The IA activity is viewed as viable source of talented individuals who could successfully transfer to other parts of our organization.	4.00	4.00	3.25	0.00	4.00	3.38	3.56	3.17
						Total	3.65	3.21

Attachment B

Stakeholder Feedback - Client Survey Results (Detail)

Internal Audit Management	1	2	3	4	5	6	Ave	Univ
Internal audit activity management communicates effectively (oral, written, and presentations).	4.00	4.00	3.75	0.00	4.00	3.75	3.83	3.36
Internal audit activity management keeps up to date with changes in my business, our industry, and relevant regulatory issues.	3.00	4.00	3.25	0.00	4.00	3.43	3.53	3.21
The IA activity establishes annual audit plans to assess areas or topics that are significant to our organization and consistent with our organizational goals.	3.00	4.00	3.67	0.00	4.00	3.88	3.82	3.43
The IA activity sufficiently communicates its audit plans to management of areas being reviewed. This includes descriptions of audit objectives and scope of review.	4.00	4.00	3.50	0.00	4.00	3.75	3.78	3.40
The IA activity effectively promotes appropriate ethics and values within our organization.	4.00	4.00	3.75	0.00	4.00	3.63	3.78	3.54
The IA activity adequately assesses the effectiveness of risk management processes employed by management to achieve objectives.	3.00	4.00	3.75	0.00	4.00	3.50	3.67	3.31
						Total	3.75	3.38

Attachment B

Stakeholder Feedback - Client Survey Results (Detail)

Internal Audit Process	1	2	3	4	5	6	Ave	Univ
The IA activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	4.00	3.75	0.00	4.00	3.75	3.78	3.36
The IA activity exhibits proficient project management and organizational skills to assure the timely completion of their audit engagements.	3.00	4.00	3.00	0.00	4.00	3.50	3.50	3.29
The IA activity demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.	3.00	4.00	3.25	0.00	4.00	3.63	3.61	3.27
The IA activity demonstrates sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning its audit engagements.	4.00	4.00	3.50	0.00	4.00	3.63	3.72	3.38
IA activity audit reports are accurate, objective, clear, concise, constructive, complete, and timely.	4.00	4.00	3.50	0.00	4.00	3.50	3.67	3.28
						Total	3.67	3.31

Attachment B

Stakeholder Feedback - Internal Audit Management and Staff Survey Results (Detail)

Internal Audit Governance	1	2	Ave	Univ
Our internal audit activity is perceived as adding value and helping our organization accomplish its objectives.	4.00	3.39	3.41	3.45
Our internal audit activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	3.00	3.03	3.03	3.32
My chief audit executive effectively promotes the value of our internal audit activity within our organization.	4.00	3.70	3.71	3.63
Our internal audit activity staff is fully aware of, and completely conforms with, both the Principles and the Rules of Conduct that comprise the Code of Ethics established by The Institute of Internal Auditors (IIA).	4.00	3.48	3.50	3.57
Our internal audit activity staff is fully aware of, and completely conforms with, The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) relating to objectivity and due professional care and the Code of Ethics.	4.00	3.54	3.56	3.54
Our internal audit activity has a conflict of interest policy to report any perceived or actual issues that may have an influence on the independence and objectivity of the auditors.	3.00	3.64	3.62	3.51
		Total	3.47	3.50

LEGEND
Group 1 = CAE (1 of 1 Respondent)
Group 2 = Internal Audit Department (29 of 49 Respondents)

Ave = Weighted average of all respondents from within Internal Audit at Harris County.
Univ = Weighted average of all respondents for all organizations completing survey since May 2013.

4.00 = Strongly Agree
3.00 = Agree
2.00 = Disagree
1.00 = Strongly Disagree
0.00 = Don't Know / No Response

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Attachment B

Stakeholder Feedback - Internal Audit Management and Staff Survey Results (Detail)

Internal Audit Staff	1	2	Ave	Univ
IA activity staff and management communicate effectively (oral, written, and presentations).	4.00	3.48	3.50	3.41
Our audit assignments provide internal audit activity staff with opportunities to develop adequate knowledge of key business processes, including critical success factors.	3.00	3.34	3.33	3.45
I have sufficient knowledge of key IT risks and controls to perform my audit engagements.	3.00	3.30	3.29	3.19
I have sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning my audit engagements.	3.00	3.41	3.40	3.35
Our internal audit activity management provides me with ample opportunities to develop the skills and knowledge necessary to perform all of my audit engagements.	4.00	3.48	3.50	3.39
Our internal audit activity management provides me with ample opportunities to develop skills and knowledge and acquire experience that enable me to develop professionally and advance my career.	3.00	3.45	3.43	3.36
I have ample opportunity to enhance my knowledge, skills, and competencies through in-house training sessions and/or outside seminars.	4.00	3.62	3.63	3.37
My performance is reviewed on a regular and sufficiently frequent basis, the criteria used are adequate, and the reviews are meaningful and helpful.	2.00	3.32	3.28	3.31
Our internal audit activity management encourages and supports internal audit activity staff in demonstrating its proficiency by obtaining appropriate professional certifications such as designations offered by The IIA or other designations related to internal auditing.	4.00	3.54	3.55	3.53
Our internal audit activity is viewed as a valuable developmental assignment by individuals from other parts of our organization.	3.00	3.45	3.43	3.24
		Total	3.44	3.36

Attachment B

Stakeholder Feedback - Internal Audit Management and Staff Survey Results (Detail)

Internal Audit Management	1	2	Ave	Univ
Our internal audit activity management has established policies and procedures that clearly guide the operation of our internal audit activity.	3.00	3.50	3.48	3.47
Our internal audit activity actively encourages collaborative effort between internal audit management and staff to effectively complete our engagements in a timely manner.	4.00	3.54	3.55	3.45
Our internal audit activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.32	3.31	3.47
Our internal audit activity adequately assesses the effectiveness of risk management processes employed by management to achieve our organization's objectives.	3.00	3.40	3.38	3.39
Our internal audit activity effectively promotes appropriate ethics and values broadly across our total organization.	4.00	3.48	3.50	3.55
Our internal audit activity adequately assesses the effectiveness of governance processes, including ethics-related programs and activities.	2.00	3.15	3.11	3.41
		Total	3.40	3.46

Attachment B

Stakeholder Feedback - Internal Audit Management and Staff Survey Results (Detail)

Internal Audit Process	1	2	Ave	Univ
Our internal audit activity develops and documents a plan for each engagement based on a preliminary assessment of risks relevant to the area being reviewed (including the probability of fraud), and our engagement objectives reflect the result of this risk assessment.	4.00	3.46	3.48	3.53
Our internal audit activity uses computer-assisted audit techniques, including data mining, to facilitate data collection and analysis during completion of our engagements.	4.00	3.19	3.21	3.15
I receive appropriate, timely, and constructive feedback regarding my performance in completing engagements, enabling me to continue developing my knowledge, skills, and competencies.	3.00	3.55	3.53	3.27
Our internal audit activity management and staff exhibit proficient project management and organizational skills to assure the timely completion of our audit engagements.	3.00	3.36	3.34	3.27
Our internal audit activity management and staff demonstrate effective conflict resolution and negotiating skills.	4.00	3.36	3.38	3.33
		Total	3.38	3.31

Attachment C
Core Principles Effectiveness Framework

The Core Principles Effectiveness Framework presented on the following slides describes the characteristics of infrastructure, process, and quality associated with differing levels of effectiveness for the Core Principles. Effectiveness progresses from an 1) ineffective level where infrastructure and process are not well defined or operating effectively – there are many areas of partial or non-conformance with associated *Standards* to 2) a partially effective level where infrastructure and processes are defined and operating effectively but there are areas of partial conformance within associated *Standards* to 3) an effective level where infrastructure and processes are mature and where there is general conformance with all associated *Standards* to 4) a sustainable level where quality programs are focused on continuous improvement and general conformance with associated *Standards* is demonstrated for at least two consecutive external assessments to 5) optimized level where there is a drive for continuous improvement using benchmark data and peer input with external quality assessment taking place more frequently than five years with a focus on generating ideas for improvement.

Most organizations strive to be at an effective to sustainable level as there is normally incremental cost associated with operating at an optimized level.

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Attachment C

Core Principles Effectiveness Framework - Summary

	Not Effective	Partially Effective	Effective	Sustainable	Optimized
Infrastructure and Processes Supporting Core Principles					
Level of conformance with the *Standards*		★			
QAIP – internal and external assessments		★			
Elements of Infrastructure and process			★		
Core Principles for the Professional Practice of Internal Auditing					
Demonstrates Integrity			★		
Demonstrates competence and due professional care			★		
Is objective and free from undue influence (independent)			★		
Aligns with strategies, objectives, and risks of the organization			★		
Is appropriately positioned and adequately resourced			★		
Demonstrates quality and continuous improvement		★			
Communicates effectively			★		
Provides risk-based assurance			★		
Is insightful, proactive, and future-focused			★		
Promotes organizational improvement			★		

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Attachment C

Core Principles Effectiveness Framework – General Characteristics

Core Principles Characteristics	*Not Effective*	*Partially Effective*	*Effective*	*Sustainable*	*Optimized*
Level of Conformance with *Standards*	• Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards*.	• Partially in conformance with some associated *Standards*. • Generally in conformance with remaining *Standards*.	• Generally in conformance with all associated *Standards*.	• General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Generally conformance with all criteria embedded in associated *Standards*.
QAIP – Internal and External Assessments	• Internal assessments not performed. • External assessment not performed. • Results not communicated.	• Internal assessments performed, but not on an annual basis. • External assessment performed outside the five-year requirement. • Results not communicated per requirements.	• Internal assessments performed on an annual basis. • External assessment performed within the five-year requirement. • Results communicated per requirements.	• At least two consecutive external assessments performed. All external assessments performed within the five-year requirement. • Results communicated per requirements.	• External assessments performed more frequently than the five-year requirement. • Results communicated per requirements.
Elements of Infrastructure and Process	• Internal Audit charter not in place or not approved by the Audit Committee. • No QAIP in place. • Internal Audit infrastructure and process not defined and documented in Internal Audit policies and procedures.	• Internal Audit charter approved by Audit Committee. Not all required elements in place. • QAIP in place and documented but does not include all required elements. • Internal Audit infrastructure and processes defined and documented in Internal Audit policies and procedures. Not all elements included.	• Internal Audit charter approved by Audit Committee. All required elements in place. • QAIP in place and documented with all required elements. • Internal Audit infrastructure and processes defined and documented in Internal Audit policies and procedures. All required elements included.	• Internal Audit charter approved by Audit Committee on an annual basis. • QAIP in place with primary focus on continuous improvement. • Internal Audit policies and procedures updated on an annual basis to ensure alignment with changes to *Standards* and successful internal audit practice.	• Internal Audit charter supports Internal Audit role in Three Lines of Defense Framework. • QAIP viewed as opportunity to become optimized. Passion for excellence. Status quo not acceptable. • Active benchmarking with peers to identify opportunities for continuous improvement.

Attachment C

Core Principles Effectiveness Framework – Specific Characteristics and Associated Professional Guidance

Core Principles Characteristics / Associated Professional Guidance	*Not Effective*	*Partially Effective*	*Effective*	*Sustainable*	*Optimized*
Demonstrates integrity. **Code of Ethics – Integrity** ***Standards – 1000 Series, 1300 Series, 2000 Series***	• Specific examples of violations relating to the IIA Code of Ethics or the organization's code of conduct/ethics by a member of Internal Audit management or staff. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• The IIA Code of Ethics is referred to in the Internal Audit Charter but is not built into the QAIP. • Internal Audit policies and procedures reference the IIA Code of Ethics. • Partially in conformance with an associated Standard. • Generally in conformance with remaining *Standards.*	• The IIA Code of Ethics is referred to in the Internal Audit Charter and built into the QAIP. • The CAE has informed the internal audit activity of their ethical responsibilities. • Training on the IIA Code of Ethics and the organization's code of conduct/ethics takes place. • Generally in conformance with all associated *Standards.*	• Internal auditors have an annual confirmation of compliance with the IIA Code of Ethics and organization's code of conduct/ethics. • Internal audit team with CIA certification have completed ethics-related CPE requirement. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• The internal policies and/or internal audit training includes ethical scenarios/case studies that are specifically relevant to internal auditing. • Results of surveys of internal auditors and auditees indicate overall perception that internal audit activity operates with integrity. • Generally conformance with all criteria embedded in associated *Standards.*
Demonstrates competence and due professional care. **Code of Ethics – Competency** ***Standards – 1200 Series, 2000 Series, 2200 Series, 2300 Series, 2600***	• Internal audit management and staff do not have skills, credentials, and experience to achieve audit plan objectives. • Work performed in ad hoc manner. • Supervisory review and approval of internal audit work not in evidence. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.* • Specific example(s) of operating in conflict with Code of Ethics.	• Internal audit management and staff generally have the skills, credentials, and experience to achieve audit plan objectives. • Work performed in a manner generally consistent with defined methodology. • Supervisory review and approval takes place but may not be formally documented. • Partially in conformance with an associated Standard. • Generally in conformance with remaining *Standards.*	• Job descriptions defined for all levels within Internal Audit. • Use of technology and data analysis defined as component of Internal Audit methodology. • Work performed in a manner consistent with defined methodology, supported by QAIP. • Supervisory review and approval consistently documented. • Generally in conformance with all associated *Standards.* • Internal Audit policies and procedures require conformance with competence principle.	• Skills, credentials, and experience managed using a competency framework. • Internal audit embraces the use of technology and data analysis to support work performed. • Work of subject matter experts effectively integrated into work performed. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Competency framework adapted to changing skills and credential requirements. • Electronic work papers fully integrated into risk management of the organization. • Continuing professional development key focus of Internal Audit. • Internal Audit viewed as a talent pool by stakeholders. • Generally conformance with all criteria embedded in associated *Standards.*

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Attachment C

Core Principles Effectiveness Framework – Specific Characteristics and Associated Professional Guidance

Core Principles Characteristics / Associated Professional Guidance	*Not Effective*	*Partially Effective*	*Effective*	*Sustainable*	*Optimized*
Is objective and free from undue influence (independent). **Code of Ethics – Objectivity** ***Standards – 1000 Series, 1100 Series, 2000 Series***	• Specific example(s) of operating in conflict with Code of Ethics. • No disclosure of real of perceived conflicts of interest. • Functional reporting is not to the board or a committee of the board. • Management exerts undue influence. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• Internal Audit charter references Code of Ethics. • Internal Audit policies and procedures reference Code of Ethics. • Functional reporting defined to the board, but actual practice does not support this reporting relationship. • Partially in conformance with an associated Standard. • Generally in conformance with remaining *Standards.*	• Internal Audit charter and policies require conformance with Code of Ethics. • Real or perceived conflicts of interest appropriately disclosed. • Functional reporting to the board clearly articulated in both Internal Audit and Audit Committee charters. • Generally in conformance with all associated *Standards.*	• Independence, and objectivity actively managed by Internal Audit. • Annual confirmation of independence and objectivity. • Safeguards, with reporting to the board, are in place for any roles that the CAE may have responsibility for beyond Internal Audit. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Independence and objectivity supported by annual awareness training. • Organizational roles and responsibilities clearly defined and aligned with the Three Lines of Defense. • Unrestricted and periodic access to the board. • Generally conformance with all criteria embedded in associated *Standards.*
Aligns with strategies, objectives, and risks of the organization. **Code of Ethics – Objectivity** ***Standards – 2000 Series, 2200 Series***	• Internal audit plan is not risk-based. • Internal audit plan is developed without input from key stakeholders within the organization. • No internal audit specific strategic plan. • No coordination with other providers of assurance in the organization, especially with ERM. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• Risk-based internal audit plan with limited input from key stakeholders. • Internal audit strategic plan not well defined – initiatives not linked to entity-wide view of risk. • Coordination with other providers of assurance done on ad hoc basis – no clear definition or understanding of roles in Three Lines of Defense Framework. • Partially in conformance with an associated Standard. • Generally in conformance with remaining *Standards.*	• Top organizational risks are used as the basis of the annual audit plan. Top risks not addressed in the annual audit plan are communicated to the board. • The internal audit activity's strategic plan, aligned to the organizational strategy, is developed with a defined vision, objectives, and clear measures of success. • Effective coordination with other providers of assurance. • Generally in conformance with all associated *Standards.*	• Risk-based planning exercise performed more frequently than on annual basis. • Internal Audit strategic plan has multi-year horizon – presented to board for review and approval. • Active coordination with other providers of assurance. Assurance maps used to communicate risk coverage. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Risk-based plan includes criteria related to alignment with organizational strategy and risk. • Internal audit strategic plan milestones linked to Internal Audit balanced scorecard. • CAE attends senior stakeholder strategy-setting meetings. • Internal Audit performs periodic assessments related to Second Line of Defense functions' effectiveness. • Generally conformance with all criteria embedded in associated *Standards.*

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Attachment C

Core Principles Effectiveness Framework – Specific Characteristics and Associated Professional Guidance

Core Principles Characteristics / Associated Professional Guidance	*Not Effective*	*Partially Effective*	*Effective*	*Sustainable*	*Optimized*
Is appropriately positioned and adequately resourced. **Code of Ethics – Competency** ***Standards – 1000 Series, 1100 Series, 1200 Series, 2000 Series***	• Functional reporting not to the board. • Administrative reporting does not support independence and objectivity. • Resources not sufficient to meet audit plan objectives from numbers and/or skills perspective. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards*.	• Functional reporting to board, but not specifically defined in charters. • Administrative reporting to level below direct report to the CEO. • Resources generally sufficient to meet audit plan objectives – audits deferred due to resource limitations. • Partially in conformance with some associated *Standards*. • Generally in conformance with remaining *Standards*.	• Functional reporting to the board – specifically defined in charters. • Administrative reporting to CEO or direct report of the CEO. • Survey results support view that Internal Audit operates independently and objectively. • Resources aligned with audit plan objectives. Impact of resource limitations communicated. • Generally in conformance with all associated *Standards*.	• Functional reporting defined consistently between charters. • Administrative reporting actively promotes role of Internal Audit • Resources aligned with audit plan objectives. Third party resources used to augment skills or numbers. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Functional reporting to board clearly understood across organization. • Internal Audit activity's mandate is broad and aligned with organizational needs. • Resource levels from skills and numbers perspective monitored and adjusted to meet audit plan objectives. • Generally conformance with all criteria embedded in associated *Standards*.
Demonstrates quality and continuous improvement **Code of Ethics – Competency** ***Standards – 1300 Series, 2000 Series***	• QAIP not defined or being executed. • Internal assessment processes not being executed. • External assessment not performed. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards*.	• QAIP not formally defined – ad hoc. • Internal assessment does not promote quality on audit-by-audit basis. • Periodic internal assessment not performed holistically. • External assessment not performed within five-year requirement. • Results of QAIP not communicated effectively. • Partially in conformance with some associated *Standards*. • Generally in conformance with remaining *Standards*.	• QAIP formally defined and executed consistent with plan. • Internal assessment effective and distinguish between ongoing monitoring of performance and periodic internal assessment. • External assessment performed within five-year requirement. • Results of QAIP communicated effectively. • Generally in conformance with all associated *Standards*.	• QAIP updated annually for alignment with *Standards*. • Internal and external assessment focus on conformance and continuous improvement. • External assessment performed in at least two consecutive periods. • Communication of results promotes continuous improvement. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Periodic internal assessment uses vertical and horizontal assessment techniques. • Benchmarking and peer input promotes continuous improvement and generation of ideas. • External assessment performed more frequently than every-five years. • External assessment used as idea generation for improvement. • Generally conformance with all criteria embedded in associated *Standards*.

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Attachment C

Core Principles Effectiveness Framework – Specific Characteristics and Associated Professional Guidance

Core Principles Characteristics / Associated Professional Guidance	*Not Effective*	*Partially Effective*	*Effective*	*Sustainable*	*Optimized*
Communicates effectively. **Code of Ethics – Confidentiality** ***Standards – 1300 Series, 2000 Series, 2200 Series, 2300 Series, 2400 Series, 2600***	• Required communications not defined. • Infrequent interaction with the Audit Committee. • Engagement reporting viewed as ineffective by key stakeholders. • Engagement reports of low quality as measured by quality characteristics. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• Required communications defined - not consistently followed. • Formal interaction with Audit Committee – limited informal. • Engagement reporting viewed as adequate by key stakeholders. • Engagement reports meet most quality characteristics. • Partially in conformance with some associated *Standards.* • Generally in conformance with remaining *Standards.*	• Required communications checklist used to ensure requirements met. • Formal and informal interaction with the board. • Engagement reporting viewed as effective by key stakeholders. • Engagement report of high quality and consistent with quality characteristics. • Generally in conformance with all associated *Standards.*	• Required communications integrated into board agenda. • Reports are factually accurate, highlight risk, address root cause, and encourage engagement from audit client. • Engagement reporting template driven with appropriate use of graphics. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Required communications in the Internal Audit charter. • Interaction with board includes Internal Audit management and staff. • Customized reports to key stakeholders – recognition of different communication requirements. • Reports provide a holistic view of assurance including positive performance. • Generally conformance with all criteria embedded in associated *Standards.*
Provides risk-based assurance. ***Standards – 2000 Series, 2100 Series, 2200 Series, 2400 Series, 2600***	• No alignment of annual audit plan with top organizational risk universe and risk appetite. • Internal Audit has no seat at the table related to ERM. • No coordination with other providers of assurance within the organization. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• General alignment of risk-based plan with top organizational risks – alignment not demonstrated with assurance map. • Coordination with other providers of assurance done on ad hoc basis – no clear definition or understanding of roles in Three Lines of Defense Framework. • Partially in conformance with some associated *Standards.* • Generally in conformance with remaining *Standards.*	• Internal Audit mandate includes assurance that key risks are being managed or that action plans are in place to address them. • Assurance map used to demonstrate alignment of annual audit plan with ERM risks. • Effective coordination with other assurance functions demonstrated using assurance maps. • Generally in conformance with all associated *Standards.*	• Internal Audit planning aligned with top organizational risk universe and risk appetite. • Internal Audit plan is flexible and adapts to emerging risks or changes to risk profile. • Effectively interfaces with and periodically audits the risk management function / framework. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Each engagement scope and objective is customized to address the significant organizational and strategic risks most relevant to the engagement. • Reporting or results linked back to top organizational and strategic risks. • Generally conformance with all criteria embedded in associated *Standards.*

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Attachment C

Core Principles Effectiveness Framework – Specific Characteristics and Associated Professional Guidance

Core Principles Characteristics / Associated Professional Guidance	*Not Effective*	*Partially Effective*	*Effective*	*Sustainable*	*Optimized*
Is insightful, proactive, and future-focused ***Standards – 2000 Series, 2100 Series***	• Internal Audit strategic plan not defined. • Data analysis not in evidence to support risk assessment, planning, and engagement execution. • Engagement reports do not draw conclusions and/or provide insight on significance of observations. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• Internal Audit strategic initiatives performed on an ad hoc basis – reactive rather than proactive. • Data analysis used in a limited manner. • Internal Audit observations provide limited insight in risk/impact. • Partially in conformance with some associated *Standards.* • Generally in conformance with remaining *Standards.*	• Internal Audit strategic plan in place with multi-year planning horizon. • Data analytics are deployed throughout the various phases of the audit life-cycle to identify risks. • Internal Audit observations highlight the risk/impact of observations raised. • Generally in conformance with all associated *Standards.*	• Internal Audit strategic plan updated on roll-forward basis. • Data analytics addressed for each engagement as well as for annual risk assessment. • Internal Audit reports have multiple dimensions – include themes and/or systematic issues. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Internal Audit strategic planning embedded into culture. • Data analytics incorporates robotics and artificial intelligence. • Incorporates use of maturity models into reporting of results. • Active participation with peer groups to identify emerging risks and leading practices to manage risk. • Generally conformance with all criteria embedded in associated *Standards.*
Promotes organizational improvement. ***Standards – 1000 Series, 2000 Series, 2100 Series, 2500, 2600***	• Internal Audit is compliance based – check the box approach. • Audit universe not defined - no risk-based internal audit plan. • Audit plan does not consider input from key stakeholders. • Internal audit viewed by key stakeholders as necessary evil – not seen as valuable contributor to organization success. • Not in conformance with an associated *Standard*. • Partially in conformance with numerous associated *Standards.*	• Internal audit approach focused in one dimension – financial, operational, or compliance. • Stakeholder input not used in developing risk-based plan – minimal linkage to ERM. • CAE doesn't have appropriate seat at the table. • Continuous improvement not a specific audit objective. • Partially in conformance with some associated *Standards.* • Generally in conformance with remaining *Standards.*	• Balance between financial, operational, and compliance control objectives. • Audit plan includes both assurance and advisory engagements. • Internal Audit methodology includes focus on continuous improvement. • Evaluation of control design inherent to audit approach. • Reported observations tracked, validated, and escalated based on risk. through to completion. • Generally in conformance with all associated *Standards.*	• Engagement reports focus on and address root cause of issues. • Internal Audit is invested in the business as demonstrated by industry specific training and participation in industry organizations. • Internal Audit focuses on efficiency and effectiveness of processes – identifies opportunities for improvement. • General conformance with all *Standards* demonstrated in at least two consecutive external assessments.	• Effective coordination with other assurance providers within organization – reliance on work performed. • Leading practices, insights, and control / risk trends shared with the business and across business units. • Management and the board view Internal Audit as value-added partner in governance structure of the organization. • Generally conformance with all criteria embedded in associated *Standards.*

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