
June 13, 2016

Item Name: 2016-17 Office of Audit Services Plan

Program: Audit Services

Item Type: Action

Recommendation

Approve the proposed Office of Audit Services Plan for Fiscal Year 2016-17.

Executive Summary

In accordance with the International Standards for the Professional Practice of Internal Auditing (Standards), the Office of Audit Services (OFAS) presents to the Risk and Audit Committee (Committee) the proposed audit plan for the Committee's review and approval. The proposed audit plan is attached to this agenda item as Attachment 1, and covers audits to be performed in Fiscal Year 2016-17.

Strategic Plan

This item is not a specific product of the Strategic Plan, but is required by the Standards and the OFAS Charter.

Background

The Standards require OFAS to establish a risk-based plan to determine the priorities of the internal audit projects and consulting engagements, consistent with the organization's goals. The Standards also require OFAS to consider input of the Board of Administration (Board) and CalPERS management during an annual risk assessment.

The OFAS Charter states at least annually, the Chief Auditor will submit an internal audit plan to the Committee and the Board for review and approval. The audit plan will be refreshed as needed.

Analysis

The Standards require the internal audit activity to evaluate and improve governance, risk management, and control processes using a systematic and disciplined approach. Specifically, the internal audit activity must evaluate risk exposures relating to, and the adequacy and effectiveness of controls within, the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;

- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

Audit Universe and Risk Assessment

In developing a risk-based audit plan, OFAS first established an audit universe. The audit universe is a list of all the possible audits that could be performed for the organization. To perform the risk assessment, OFAS took into consideration the CalPERS strategic plan goals and objectives, any changes in laws and regulations, significance of operations to financial reporting, and CalPERS information security program and information technology services management. OFAS also considered input from the Board, executive management, and senior management.

To obtain input from the Board and management, OFAS conducted Board and management surveys and interviewed division chiefs and executive management. Input from the Board and management are incorporated into the assessment of risks and exposures. To ensure that resources are used in the most efficient and effective way, OFAS coordinated its risk assessment activity with the Enterprise Compliance Division and Enterprise Risk Management Division to prevent duplication of work while still achieving our respective objectives. The enterprise benefits from an integrated assurance approach, which ensures that the overall assurance process is adequate to assess the risks of the organization are being appropriately managed. The risk assessment methodology utilized for public agency reviews and internal audits differs based on the scope and overall audit objectives.

Public Agency Risk Assessment Methodology

OFAS performs compliance reviews of contracting public agencies, including cities, counties, special purpose districts and authorities, schools, state agencies, California state universities, and agricultural districts. The objective of the reviews is to assess whether the contracting agencies comply with applicable sections of the PERL and prescribed reporting and enrollment procedures as they relate to the agencies' contracts with CalPERS.

OFAS performed a risk assessment to identify high risk compliance areas for review. Using data analytics, OFAS will determine the high risk agencies for these compliance areas for review in Fiscal Year 2016-17. OFAS' goal is to identify a minimum of 60 agencies for each compliance activity selected for review. In Fiscal Year 2016-17, four compliance activities were identified to review; and OFAS plans to increase the number of activities reviewed in future years.

Internal Audit Risk Assessment

OFAS performs internal audits that evaluate the adequacy and effectiveness of controls designed and implemented in response to the risks regarding the achievement of the organization's strategic objectives, reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programs, safeguarding of assets, and compliance with laws, regulations, policies, procedures, and contracts.

OFAS performed an annual risk assessment to select and determine the priorities of auditable activities for Fiscal Year 2016-17. For each auditable activity, we evaluated multiple risk factors, assigned a risk value and weight to each risk factor, and calculated an overall risk score for each auditable activity. The risk factors included contribution to strategic goals, changes in operations and regulations, size of operation and impact on financial statements, significant compliance requirements within the unit, character of activity and complexity, adequacy and effectiveness of implemented controls over key functions, sensitivity of information processed,



degree of Board and management interest, and prior internal and external audit findings. We ranked the auditable activities' overall risk scores to develop a preliminary risk-based audit plan.

Additional factors considered in developing the internal audit plan include recent audits and findings, known risks and planned mitigation in progress, value-added consulting engagements, logical sequencing of audits, coverage provided by other assurance functions, impact on business areas, and available audit resources. Taking all these into account and applying the professional judgment of experienced auditors, we selected the areas to include in our audit plan.

Since one of the goals of the audit function is to not only provide assurance to the Board, but also provide assistance to management, we also allocate resources toward responding to special requests and consulting projects. In addition to our planned audit activities, OFAS also coordinates contracted external audits and reviews, including the financial statement audit, Governmental Accounting Standards Board Statement No. 68 audit, real estate and other contracted specialty investment audits, and actuarial valuation and certification service reviews.

To remain flexible and responsive to changes in the organization's business, risks, operations, programs, systems, and controls, we will review and adjust the Fiscal Year 2016-17 plan, as necessary. Proposed modifications to the audit plans will be presented to the Committee as needed during the year.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The proposed audit plan will set the direction and priorities of the internal audit activities for the next fiscal year. Implementation of this audit plan will result in compliance with the Standards while providing the Board and management a higher level of assurance that appropriate controls are in place and working as intended and contracting public agencies comply with the PERL and prescribed procedures. Not implementing the audit plan would result in non-compliance with the Standards, decreased levels of assurance, and reduced ability to detect non-compliance with the PERL and prescribed procedures by public agencies.

Attachment

Attachment 1 – Proposed Audit Plan for Fiscal Year 2016-17

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Office of Audit Services

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General Counsel

