



Risk and Audit Committee Agenda Item 7b

February 13, 2017

Item Name: External Assessment of the Office of Audit Services Quality Assurance & Improvement Program

Program: Audit Services

Item Type: Information

Executive Summary

The Office of Audit Services (OFAS) received the highest possible overall opinion, *Generally Conforms*, on the recent external quality assessment completed in December 2016, as required every five years by the International Standards for the Professional Practice of Internal Auditing (Standards). The purpose of the external assessment is to assess OFAS' compliance with the Standards and Code of Ethics.

Strategic Plan

This item supports CalPERS Strategic Plan Goal B: Cultivate a high-performing, risk intelligent and innovative organization. OFAS provides assurance to the CalPERS Board of Administration (Board) and executive staff as the Third Line of Defense in organization's governance of risk.

Background

Standard 1300 states the Chief Auditor must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The quality assurance and improvement program must include both internal and external assessments. Internal assessments include periodic self-assessments or assessments by staff within the organization with sufficient knowledge of internal audit practices. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. Standard 1320 requires the Chief Auditor to communicate the results of the quality assurance and improvement program to senior management and the Board.

To comply with the Standards, OFAS performs internal assessments of the internal audit activity, as part of the Quality Assurance and Improvement Program, through ongoing reviews and periodic self-assessments. In addition, OFAS engaged an external reviewer to conduct an assessment of the internal audit activity as required by the Standards every five years. Pursuant to Risk & Audit Committee Agenda Item 5b approved by the Board on September 16, 2015, the Department of Finance, an oversight agency of state internal audit functions, was engaged by CalPERS to perform the external quality assessment of OFAS' internal audit operations for the period July 1, 2011 through June 30, 2016.

The external quality assessment consisted of a broad scope of coverage that included a review of the following areas:

- Audit function's independence and objectivity

- Communications with the Board and senior management
- Staffing and training
- Risk assessment and annual audit plan
- Performance of audits and quality of work products
- Audit follow up and findings resolution

Analysis

OFAS received the highest possible overall opinion, *Generally Conforms*. This rating expresses OFAS' internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards and Code of Ethics.

The Department of Finance also noted the following six successful practices critical to maintaining OFAS' visibility, relevance, and credibility within CalPERS. These practices ensure OFAS' compliance with the Standards and Code of Ethics.

- Organizational Independence
- Unrestricted Access to Information
- Risk Assessment
- Quality Assurance and Improvement Program
- Professional Development of Staff
- Quality Work Products

Budget and Fiscal Impacts

The total fee associated with the external quality assessment was \$35,000.

Benefits and Risks

Receiving an opinion of *Generally Conforms* and the recognition of six positive practices provide CalPERS Board and senior management assurance that the internal audit activity:

- Performs in accordance with the Internal Audit Charter, the Code of Ethics, and the Standards.
- Operates in an effective and efficient manner.
- Adds value and improves the organization's operations.

Not completing an external quality assessment would result in non-compliance with the Standards and Code of Ethics.

Attachments

Attachment 1 – CalPERS OFAS External Quality Assessment

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