

FAP Agenda Number 6.

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MEETING DATE: May 19, 2016

AGENDA ITEM: Results of Internal Audit Quality Assessment

RELEVANT POLICY, STATUTE OR GUIDING PRINCIPLE:

- 2016 CAWCD Strategic Plan
 - Project Reliability: Effectively Manage, Operate and Maintain CAP Assets

PREVIOUS BOARD ACTION/ACTIVITY:

The Finance Audit and Power Committee (FAP) receive regular reports on Internal Audit activities.

ISSUE SUMMARY/DESCRIPTION:

A final report was issued for the Internal Audit Quality Assessment. Internal Audit's self-assessment concluded that it was in general conformance with the Institute of Internal Auditors' (IIA) Standards and Code of Ethics. A consultant from the IIA concurred with the results of the assessment.

Details are provided in the attachment to this brief.

Attachment.

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<u>Project</u>	<u>Comments</u>
Internal Audit Quality Assessment	<p>Status:</p> <p>The final report for the self-assessment was issued on 3/30/16. The Institute of Internal Auditors (IIA) completed their validation of the self-assessment on 4/27/16.</p> <p>Listed below is the executive summary of IIA’s validation of Internal Audit’s self-assessment.</p> <p>Executive Summary:</p> <p>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 assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the EQA process. The Institute of Internal Auditors (“IIA”) Quality Services, LLC conducted an independent validation of the EQA self-assessment prepared by the Central Arizona Project (“CAP”) Internal Audit Department (“Internal Audit”) designed to evaluate conformance with the Standards and the IIA Code of Ethics. The validation was concluded on April 27, 2016, and provides management with information about Internal Audit as of that date. Future changes in environmental factors and actions by personnel, including actions taken to address 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 findings and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently, and draw different conclusions.</p> <p><u>Conformance with the Standards and the IIA Code of Ethics</u></p> <p>We concur with Internal Audit's self-assessment that they are operating generally in conformance with the Standards and the IIA Code of Ethics. A detailed list of conformance to individual Standards as concluded by the IIA is shown within this report. The IIA’s Quality Assessment Manual includes a scale of three ratings, “generally conforms,” “partially conforms,” and “does not conform.”</p>

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<u>Project</u>	<u>Comments</u>
Internal Audit Quality Assessment	<p><u>Conformance with the Standards and the IIA Code of Ethics (Continued):</u></p> <p>“Generally Conforms” is the top rating and means the assessor 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 or the IIA Code of Ethics in all material respects. “Partially Conforms” means the assessor has concluded that the activity is making good-faith efforts to comply with the requirements of the Standards or the IIA Code of Ethics, but falls short of achieving some major objectives. “Does Not Conform” means the assessor has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many / all of the objectives of the Standards or the IIA Code of Ethics. We concur with the observations as presented in the self-assessment report dated March 30, 2016. Our report provides commentary on each observation reported by Internal Audit in their self-assessment. Our report also notes several additional successful internal audit practices, a gap to conformance with the Standards, and several additional opportunities for continuous improvement. This information is consistent with the IIA’s view that an EQA should provide insight and ideas for positive change in an internal audit activity.</p> <p><u>Objectives / Scope / Methodology</u></p> <ul style="list-style-type: none">• The primary focus of a self-assessment with independent validation is to assess conformance with the Standards and the IIA Code of Ethics. Other objectives, including providing insight into successful internal audit practices demonstrated and the identification of opportunities for continuous improvement were also incorporated into the validation.• The scope of this review included the operation of Internal Audit as set forth in the Internal Audit charter approved by the Finance, Audit and Power (“FAP”) Committee which defines the purpose, authority, responsibility, and accountability of the activity. This validation was based upon the body of work that documented and supported the conclusions drawn and reported by Internal Audit in their self-assessment report dated March 30, 2016.• To accomplish the objectives, the independent assessor reviewed work papers and information prepared by Internal Audit to support their conclusions. In addition, the independent assessor conducted interviews with selected key stakeholders of Internal Audit, reviewed a sample of audit projects and

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<u>Project</u>	<u>Comments</u>
Internal Audit Quality Assessment	<p><u>Objectives / Scope / Methodology (Continued):</u></p> <p>associated work papers and reports, and prepared diagnostic tools consistent with the methodology established for a validation of an internal audit self-assessment as described in the IIA Quality Assessment Manual.</p> <p><u>Observations Specific to Internal Audit</u></p> <p>Internal Audit performed a self-assessment with independent validation to satisfy their external assessment requirement under the Standards. Internal Audit concluded and the IIA concurs that they are generally in conformance with the Standards and the IIA Code of Ethics. Internal Audit operates in a dynamic environment with changing and emerging risks and 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 the organization. The Chief Audit Executive (“CAE”) has established a Quality Assurance and Improvement Program (“QAIP”) that demonstrates a strong commitment to continuous improvement and alignment with the Standards. Internal Audit’s annual risk assessment process focuses activities in areas of highest risk and impact consistent with the strategy and objectives of CAP. Interviews with senior stakeholders support the view that Internal Audit’s role is highly valued and they are seen as an integral component of the organization’s governance mechanism.</p> <p><u>Attribute Standards</u></p> <p>Internal Audit has the infrastructure in place to support sustainability of internal audit processes in a quality and consistent manner. An Internal Audit charter is in place but must be updated to align with requirements of the Standards. The updated Internal Audit charter must be approved by the FAP Committee. The functional reporting relationship of the CAE to the FAP Committee and the administrative reporting relationship to the General Manager are both appropriate to support organizational independence and objectivity of Internal Audit. The nature of the functional reporting relationship to the FAP Committee must be specifically described in the Internal Audit charter consistent</p>

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<u>Project</u>	<u>Comments</u>
Internal Audit Quality Assessment	<p><u>Attribute Standards (Continued):</u></p> <p>with current practice. The Internal Audit charter and the FAP Committee charter should be consistent in how they describe the nature of functional reporting. Collectively, the CAE and third party resources used for subject matter expertise, possess the knowledge, skills, and other competencies necessary to demonstrate professional proficiency; and work is performed with due professional care. Training and professional development processes support proficiency of Internal Audit. The QAIP established by the CAE must be modified to include a more frequent periodic internal assessment component that evaluates conformance with the Definition of Internal Auditing, the IIA Code of Ethics, and the Standards. Other required elements of the QAIP including on-going monitoring of Internal Audit performance, external assessment, and communication of QAIP results are in place and operating effectively.</p> <p><u>Performance Standards</u></p> <p>Internal Audit is managed appropriately and the annual audit plan is supported by a risk assessment process that incorporates input from Internal Audit stakeholders including the FAP Committee and that is linked to CAP's strategies and objectives. Internal Audit resource levels and skills sets, when viewed on a collective basis, appear appropriate to meet annual audit plan objectives. Documentation of policies and procedures for Internal Audit infrastructure and key processes is consistent with the requirements for a smaller internal audit activity and are in sufficient detail to support sustainability, consistency, and quality. Periodic reports to the FAP Committee appropriately communicate Internal Audit activities and value. Internal Audit supports and promotes governance, risk management, and control within CAP through interaction and coordination with key stakeholder groups within CAP and the achievement of objectives established in their annual audit plan. Engagement level planning is supported by engagement level risk assessment to focus audit activities in areas of highest risk. Objectives evaluate technology, operational, financial, and compliance components as appropriate for individual engagements. Individual audits are performed consistent with underlying audit plan objectives. Work papers support reported observations and are reviewed periodically as a component of the QAIP. Audit reports are consistent with the underlying work product but should be enhanced to focus the reader on those areas of highest relevance. A monitoring and follow-up process is in place to track and periodically report the status of open audit observations.</p>

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STANDARDS CONFORMANCE SUMMARY – IIA VALIDATION

		GC	PC	DNC	NA
OVERALL		X			
ATTRIBUTES STANDARDS					
1000	Purpose, Authority, and Responsibility		X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the <i>Standards</i> in the Internal Audit Charter		X		
1100	Independence and Objectivity	X			
1110	Organizational Independence	X			
1111	Direct Interaction with the Board	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 <i>International Standards for the Professional Practice of Internal Auditing</i> "	X			
1322	Disclosure of Nonconformance	X			
PERFORMANCE STANDARDS					
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	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 <i>International Standards for the Professional Practice of Internal Auditing</i> "	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			
CODE OF ETHICS		X			

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STANDARDS CONFORMANCE SUMMARY – INTERNAL AUDIT’S SELF-ASSESSMENT

		GC	PC	DNC	NA
OVERALL		X			
ATTRIBUTES STANDARDS					
1000	Purpose, Authority, and Responsibility		X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the <i>Standards</i> in the Internal Audit Charter	X			
1100	Independence and Objectivity	X			
1110	Organizational Independence		X		
1111	Direct Interaction with the Board	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 <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X			
1322	Disclosure of Nonconformance	X			
PERFORMANCE STANDARDS					
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	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 <i>International Standards for the Professional Practice of Internal Auditing</i> ”	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			
CODE OF ETHICS		X			

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IIA Validation Report Executive Summary

During the EQA, several areas were noted by the self-assessment team where there were successful internal audit practices, gaps to conformance with the *Standards* or opportunities for continuous improvement. The independent assessor noted several areas where Internal Audit is demonstrating a successful internal audit practice. In addition, the independent assessor noted several areas where there was a gap to conformance with the *Standards* or additional opportunities for continuous improvement to enhance efficiency and effectiveness of Internal Audit's processes. Detailed observations, recommendations, and corrective action plans to these gaps to conformance with the *Standards* or opportunities for continuous improvement are included in the following section to this report.

Successful Internal Audit Practices Noted by the Self-Assessment Team

- Standard 1210** **Proficiency** – Internal Audit obtains specialized auditing services from external service providers when existing staff do not have the requisite skills.
- Standard 1230** **Continuing Professional Development** – CAP management supports professional development throughout the organization.
- Standard 1311** **Internal Assessments** – Ongoing performance of Internal Audit is monitored through audit client surveys and key performance indicators.
- Standard 2010** **Planning** – Internal Audit employs a participative approach to annual audit planning by soliciting input from CAP managers and the Board of Directors.
- Standard 2060** **Reporting to Senior Management and the Board** – Communicating activities to the FAP Committee and external auditors.
- Standard 2320** **Analysis and Evaluation** – Internal Audit utilizes ACL software as a data analytics tool to identify irregularities or patterns in transactions that could indicate control weaknesses.

Successful Internal Audit Practices Noted by the Independent Assessor

- Standard 1312** **External Assessments** – The self-assessment prepared in conjunction with the independent validation was exceptionally thorough and well done and fully supported and documented the conclusions reached by Internal Audit.
- Standard 2040** **Policies and Procedures** – The Internal Audit manual that documents the underlying policies, procedures, and infrastructure supporting the Internal Audit methodology is particularly well done for a smaller internal audit activity.

Gaps to Conformance with the Standards Noted by the Self-Assessment Team

- Standard 1000** **Purpose, Authority, and Responsibility** – Review the Internal Audit charter on a regular basis.
- Standard 1110** **Organizational Independence** – Confirm organizational independence of Internal Audit on an annual basis.
- Standard 1311** **Internal Assessments** – Internal Audit does not conduct periodic self-assessments other than the self-assessment that occurs every five years prior to the external validation.

Gap to Conformance with the Standards Noted by the Independent Assessor

- Standard 1010** **Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter** – Include language in the Internal Audit charter that recognizes the mandatory nature of the Definition of Internal Auditing, the IIA Code of Ethics, and the *Standards*.

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IIA Validation Report Executive Summary (Continued)

Opportunities for Continuous Improvement Noted by the Self-Assessment Team

Standard 1220 ***Due Professional Care*** – Continuous auditing has not been implemented at CAP.

Standard 2030 ***Resource Management*** – Management and the Board of Directors should determine if existing resources are adequate for CAP's internal audit function.

Standard 2410 ***Criteria for Communicating*** – Internal Audit findings are not grouped into categories to denote their significance.

Opportunities for Continuous Improvement Noted by the Independent Assessor

Standard 1110 ***Organizational Independence*** – Consider updating the FAP Committee mission statement to reflect their functional oversight of Internal Audit in a manner consistent with current practice and the *Standards*.

Standard 2060 ***Reporting to Senior Management and the Board*** – Consider adopting a "Required Communications with the Finance, Audit and Power Committee Checklist" to demonstrate that all communication requirements are met in the appropriate time frames.

Standard 2110 ***Governance*** – Evaluate the corporate ethics and compliance program and IT governance as a component of the annual risk assessment and planning process.

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YOUR WATER. YOUR FUTURE.

Results of Internal Audit Quality Assessment

Mark Filippone
Internal Audit Manager
May 19, 2016

Framework for Internal Audit Effectiveness

- Developed by Institute of Internal Auditors (IIA)
- International Professional Practices Framework (IPPF)



Mission and Core Principles of Internal Audit

Mission:

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Core Principles:

Demonstrates integrity.

Demonstrates competence and due professional care.

Is objective and free from undue influence (independent).

Aligns with the 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

Definition of Internal Auditing

The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.

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

Code of Ethics

Principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing

Two essential components:

1. Principles that are relevant to the profession and practice of internal auditing.
2. Rules of Conduct that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

Code of Ethics Principles

1. Integrity

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

2. Objectivity

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

3. Confidentiality

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

4. Competency

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

Rules of Conduct - Integrity

Internal auditors:

1.1. Shall perform their work with honesty, diligence, and responsibility.

1.2. Shall observe the law and make disclosures expected by the law and the profession.

1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.

1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization

Rules of Conduct - Objectivity

Internal auditors:

2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Rules of Conduct - Confidentiality

Internal auditors:

3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization

Rules of Conduct - Competency

Internal auditors:

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

Standards

Standards are principle-focused and provide a framework for performing and promoting internal auditing.

The *Standards* are mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the statements.
- Glossary terms.

Attribute vs. Performance Standards

Attribute Standards

Attribute *Standards* address the characteristics of organizations and parties performing internal audit activities.

Performance Standards

Performance *Standards* describe the nature of internal audit activities and provide criteria against which the performance of these services can be evaluated.

Standards Conformance Summary – IIA Validation

	GC	PC	DNC	NA
OVERALL	X			

ATTRIBUTES STANDARDS		GC	PC	DNC	NA
1000	Purpose, Authority, and Responsibility		X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter		X		
1100	Independence and Objectivity	X			
1110	Organizational Independence	X			
1111	Direct Interaction with the Board	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		GC	PC	DNC	NA
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	X			

	GC	PC	DNC	NA
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		
CODE OF ETHICS	X			

Standards Conformance Summary

Internal Audit's Self-Assessment

		GC	PC	DNC	NA
OVERALL		X			
ATTRIBUTES STANDARDS		X			
1000	Purpose, Authority, and Responsibility		X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics and the Standards in the Internal Audit Charter	X			
1100	Independence and Objectivity	X			
1110	Organizational Independence		X		
1111	Direct Interaction with the Board	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	X			

		GC	PC	DNC	NA
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			
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2300	Performing the Engagement	X			
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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			
CODE OF ETHICS		X			

Standards Conformance Summary

Successful Internal Audit Practices at CAP

Successful Internal Audit Practices Noted by the Self-Assessment Team

<i>Standard 1210</i>	<i>Proficiency</i> – Internal Audit obtains specialized auditing services from external service providers when existing staff do not have the requisite skills.
<i>Standard 1230</i>	<i>Continuing Professional Development</i> – CAP management supports professional development throughout the organization.
<i>Standard 1311</i>	<i>Internal Assessments</i> – Ongoing performance of Internal Audit is monitored through audit client surveys and key performance indicators.
<i>Standard 2010</i>	<i>Planning</i> – Internal Audit employs a participative approach to annual audit planning by soliciting input from CAP managers and the Board of Directors.
<i>Standard 2060</i>	<i>Reporting to Senior Management and the Board</i> – Communicating activities to the FAP Committee and external auditors.
<i>Standard 2320</i>	<i>Analysis and Evaluation</i> – Internal Audit utilizes ACL software as a data analytics tool to identify irregularities or patterns in transactions that could indicate control weaknesses.

Successful Internal Audit Practices Noted by the Independent Assessor

<i>Standard 1312</i>	<i>External Assessments</i> – The self-assessment prepared in conjunction with the independent validation was exceptionally thorough and well done and fully supported and documented the conclusions reached by Internal Audit.
<i>Standard 2040</i>	<i>Policies and Procedures</i> – The Internal Audit manual that documents the underlying policies, procedures, and infrastructure supporting the Internal Audit methodology is particularly well done for a smaller internal audit activity.

Standards Conformance Summary

Gaps to Conformance

Gaps to Conformance with the Standards Noted by the Self-Assessment Team

Standard 1000	<i>Purpose, Authority, and Responsibility</i> – Review the Internal Audit charter on a regular basis.
Standard 1110	<i>Organizational Independence</i> – Confirm organizational independence of Internal Audit on an annual basis.
Standard 1311	<i>Internal Assessments</i> – Internal Audit does not conduct periodic self-assessments other than the self-assessment that occurs every five years prior to the external validation.

Gap to Conformance with the Standards Noted by the Independent Assessor

Standard 1010	<i>Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter</i> – Include language in the Internal Audit charter that recognizes the mandatory nature of the Definition of Internal Auditing, the IIA Code of Ethics, and the Standards.
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Standards Conformance Summary

Opportunities for Continuous Improvement

Opportunities for Continuous Improvement Noted by the Self-Assessment Team

Standard 1220 *Due Professional Care* – Continuous auditing has not been implemented at CAP.

Standard 2030 *Resource Management* – Management and the Board of Directors should determine if existing resources are adequate for CAP's internal audit function.

Standard 2410 *Criteria for Communicating* – Internal Audit findings are not grouped into categories to denote their significance.

Opportunities for Continuous Improvement Noted by the Independent Assessor

Standard 1110 *Organizational Independence* – Consider updating the FAP Committee mission statement to reflect their functional oversight of Internal Audit in a manner consistent with current practice and the *Standards*.

Standard 2060 *Reporting to Senior Management and the Board* – Consider adopting a “Required Communications with the Finance, Audit and Power Committee Checklist” to demonstrate that all communication requirements are met in the appropriate time frames.

Standard 2110 *Governance* – Evaluate the corporate ethics and compliance program and IT governance as a component of the annual risk assessment and planning process.

Required Communications to FAP

Standard	Communication Requirement
1000	The CAE <u>must</u> periodically review the Internal Audit Department Charter and present it to Senior Management and the Audit Committee for review and Audit Committee approval.
1010	The CAE <u>should</u> discuss the Definition of Internal Auditing, the Code of Ethics, and the IIA <i>Standards</i> with Senior Management and the Audit Committee.
1110	The CAE <u>must</u> confirm to the Audit Committee, at least annually, the organizational independence of the internal auditing activity.
1111	The CAE <u>must</u> communicate and interact directly with the Audit Committee.
1312	The chief audit executive <u>must</u> discuss with the Audit Committee the form and frequency of external assessment as well as the qualifications and independence of the external assessor or assessment team, including any potential conflicts of interest.
1320	The CAE <u>must</u> communicate the results of the quality assurance and improvement program to senior management and the Audit Committee. The results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the reviewer's or review team's assessment with respect to the degree of conformance.
2020	The CAE <u>must</u> communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the Audit Committee for review and approval. The CAE <u>must</u> also communicate the impact of resource limitations.
2060	The CAE <u>must</u> report periodically to senior management and the Audit Committee on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting <u>must</u> also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Audit Committee.

Confirmation of Organizational Independence

The functional reporting relationship of the CAE to the FAP Committee and the administrative reporting relationship to the General Manager are both appropriate to support organizational independence and objectivity of Internal Audit.

As the Internal Audit Manager, I hereby confirm the organizational independence of the internal audit activity as of May 19, 2016.



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Questions?