Peer Review Manual

STATE AGENCY INTERNAL AUDIT FORUM (SAIAF)

MAY 2016

Preface

The State Agency Internal Audit Forum (SAIAF) Peer Review Manual was developed to provide Internal Auditors at Texas state agencies a complete set of tools to use in preparing for, conducting, and reporting the results of quality assessment reviews (peer review). The manual was co-authored by Internal Audit professionals for the benefit of the State of Texas internal auditors working in the government environment. Our intention is for the documents to be used by all government audit professionals in performing peer reviews.

We appreciate the suggestions and comments that the SAIAF membership has provided in updating the February 2013 manual.

SAIAF Peer Review Subcommittee members that contributed to this manual:

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Section 1: Overview of the SAIAF Quality Assessment Program

Definition/Purpose:

Beginning in 1995, State Agency Internal Audit Forum (SAIAF) established the external Quality Assessment Review (peer review) for Texas state agencies and institutions of higher education wanting to provide and receive a peer review on a reciprocal basis and at no charge (See Section 2.2 Reciprocity Policy). The SAIAF *Peer Review Manual* provides guidelines and tools for preparing for and performing a peer review.

The 73rd Texas Legislature enacted legislation effective September 1, 1993 establishing guidelines for internal auditing programs at certain state agencies. The purpose of a SAIAF Quality Assessment Program is to evaluate and express an opinion on the internal audit function's compliance with the following:

- The Texas Internal Auditing Act, Texas Government Code, Chapter 2102
- The Institute of Internal Auditors (IIA) Code of Ethics and *International Professional Practices Framework*
- The U.S. Government Accountability Office (GAO) *Government Auditing Standards*

Peer Reviews are intended to help the Internal Audit function and the organization receiving the review. It should be noted that 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. In addition to evaluating compliance with Standards and the Act and identifying any instances of noncompliance, peer reviews provide an opportunity to identify best practices and opportunities for improvement for the Internal Audit function's consideration. To facilitate reporting, the Peer Review team should track recommendations to address noncompliance issues and best practices on the Summary of Issues worksheet (see Appendix D) and carry them to the final report (see Appendix H).

Ratings for Reporting Results

Because The Internal Auditing Act requires certain state agencies to comply with IIA and GAO auditing standards, the Peer Review Team's opinion is expressed using both entities' ratings as follows:

- Generally conforms is an equivalent rating to pass

- Partially conforms is an equivalent rating to pass with deficiencies

- Does not conform is an equivalent rating to fail

For the complete definitions for these ratings, see Table 1.

Table 1: IIA and GAO Peer Review Ratings and Definitions

IIA *International Professional Practices Framework*	GAO *Government Auditing Standards*
Generally Conforms The assessor has concluded the following: • For individual standards, that the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the 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 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 Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.	**Pass** A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
Partially Conforms 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 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 Code of Ethics. • For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the Standards or 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.	**Pass with Deficiencies** A conclusion that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

IIA *International Professional Practices Framework*	GAO *Government Auditing Standards*
Does Not Conform 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 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 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.	**Fail** A conclusion, based on the significant deficiencies that are described in the report, that the audit organization's system of quality control is not suitably designed to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects, or the audit organization has not complied with its system of quality control to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Compliance Standards Review Program

The Compliance Standards Review Program (Compliance Standards) includes key requirements of the Texas Internal Auditing Act (Government Code, Chapter 2102); Government Auditing Standards (2011 Revision); and the mandatory guidance provided in The IIA Attribute Standards, Performance Standards, and Code of Ethics (2013 Edition). The purpose of the Peer Review is to assess compliance with Standards and the Act, not merely with the Compliance Standards. For this reason, references to the specific Standards and compliance requirements are provided throughout the Program. You may also want to refer to the IIA Practice Advisories, which are not mandatory but represent best practices recommended by The IIA for implementing the Standards.

Evidence

Evidence is obtained throughout the Peer Review process, which includes:

• The Internal Audit function's self-assessment, which involves completion of the Compliance Standards worksheet (Appendix B), at least one Review of Audit Documentation worksheet (see Appendix C), the Summary of Issues (see Appendix D), and the reference file (see Appendix E)

- The Peer Review Team's evaluation of the self-assessment and related documents

- The Peer Review Team's completion of at least one additional Review of Audit Documentation worksheet

- Management surveys (see Appendix F)

- Interviews with members of the Board and senior management (see Appendix G)

- On-site review of additional information

Interviews are typically conducted with:

- Representative of the board, preferably the Chairman and a member of the Audit Committee

- Representatives of the agency's senior management, preferably the Executive Director and managers who have received audits during the time period being reviewed

- The Chief Audit Executive/Internal Audit Director

- Internal Audit staff

- External auditors, if relevant and cost-effective

Sample interview questions are included in Appendix G. These questions are suggestions and can be modified or limited at the discretion of the Peer Review team.

Benefits of a SAIAF Peer Review

A SAIAF Peer Review satisfies the quality assurance requirements of the IIA and GAO Standards at no expense other than the participants' time. It provides significant opportunities for staff training both for the individuals performing and receiving peer reviews. In addition, the process offers the chance to network with Internal Audit professionals and managers from other state agencies. It also provides insights into best practices in the profession.

Time Commitment

Although the time involved in performing a SAIAF Peer Review varies, typically the Peer Review Team Leader will spend approximately 100 hours on the review, and Team Members will spend about 60 hours. Usually, on-site work lasts approximately one week; however, the Team Leader usually spends some time in advance sending out the survey questionnaires and scheduling interviews, and also spends some time after the on-site work finalizing the report.

Drawing Conclusions

Peer Reviews are to be performed by experienced auditors who have been trained in the peer review process. The SAIAF Peer Review Manual provides samples of the documents that are used during peer reviews. However, the peer review team can modify the questionnaires, sample letters, reports, and other documents as needed.

The Peer Review Team must use professional judgment based on evidence obtained during the Peer Review to reach a conclusion about the rating to give the Internal Audit function. Reasonable professionals may differ in the conclusions they draw based on the same set of facts. Therefore, it may be helpful to base the opinion on the impact of the risk created by instances of non-compliance as described below:

- High risk pertains to actions or inactions that could have a material adverse impact on the organization

- Medium risks typically result in inefficiencies or uneconomical use of resources

- Low risks typically do not have a significant impact on the organization

When performing peer reviews and issuing opinions, Peer Review teams should give consideration to the size of the Internal Audit activity being reviewed. This is important because small Internal Audit departments may operate somewhat differently from larger ones. For example, they may have less supervisory review or documentation of policies and procedures.

Revisions to the SAIAF Peer Review Process Manual

The SAIAF Peer Review Committee periodically makes revisions to the Peer Review Process Manual based on changes in the applicable Standards, other guidance material, and suggestions from participants in the process. SAIAF members and other users of the manual are encouraged to provide the Committee with suggestions for improving the peer review tools and/or process at any time and to complete the SAIAF Peer Review Survey after receiving or performing a Peer Review.

Section 2: Ground Rules for Conducting a SAIAF Peer Review

The SAIAF Peer Review Ground Rules form the basis for an effective and objective quality assurance process that meets the requirements of professional auditing standards. The Ground Rules are supplemented by the following additional SAIAF-approved policies and procedures:

- Self-Assessment Policies and Procedures

- Dispute Resolution Policies and Procedures

- Records Retention Policies and Procedures

- Reciprocity Policies and Procedures

Section 2.1: Ground Rules

1. It is the responsibility of each Chief Audit Executive/Internal Audit Director (Director) to obtain required peer reviews. Each Internal Audit department that uses the SAIAF Peer Review Process will be required to reciprocate in accordance with the Reciprocity Policies and Procedures.

2. The SAIAF Peer Review Process is based on the International Professional Practices Framework and the Code of Ethics, issued by the Institute of Internal Auditors (IIA), with additional requirements from the Government Auditing Standards (GAO Standards or "Yellow Book"), the Texas Internal Audit Act (Texas Government Code, Section 2102) and Best Practices (optional). This process requires the SAIAF Peer Review Team to conduct the Review in accordance with the approved SAIAF Peer Review Process and perform all activities in accordance with the IIA's Code of Ethics; IIA Standard 1120, Objectivity; and terms of the Engagement Letter or Memorandum of Understanding (MOU).

3. The SAIAF Peer Review Committee (Committee) is responsible for developing and monitoring procedures that promote reliability and integrity in the SAIAF Peer Review Process. This Committee reports to the SAIAF Chair, and shall provide assistance with the SAIAF Peer Review Process, as described in item 4 below.

4. The Peer Review Committee's responsibilities are as follows:

a) Develop and maintain a database of information that includes:

- Historical information about SAIAF member agencies

- A list of qualified peer review team leaders and team members

- The peer review credit status of each SAIAF member agency

b) Distribute a summary report listing this information periodically to the SAIAF member agencies

c) Provide guidance as needed to the Director and Peer Review Team regarding the SAIAF Peer Review Process

d) Provide SAIAF-approved policies and procedures to be followed by the Director and Peer Review Team, as indicated in the introductory paragraph above. These policies and procedures are supplemented by the Master Peer Review Program

e) Be available to assist in resolving disputes, as requested by the Director or Peer Review Team, in accordance with the Dispute Resolution Policies and Procedures

f) Survey each department that received a Peer Review and each person who participated on a Review, and report the results annually

5. The Internal Audit Department's responsibilities are as follows:

a) Complete a comprehensive, acceptable self-assessment, according to the SAIAF Self-Assessment Policies and Procedures. An acceptable self-assessment is one that is reviewed and accepted as complete by the Peer Review Team Leader. The Director should obtain approval from the Committee if a Self-Assessment is to be conducted in a different manner than recommended by SAIAF.

b) Select an acceptable Peer Review Team using the following attributes as a guide:

- The Team Leader should be at the director, manager, or supervisor level

- The size of the Peer Review Team should be based on the size of the organization being reviewed (see Table 2 for suggestions on team size)

- Include at least one team member from a comparable organization

- Ensure that each person on the team is independent from the organization being reviewed

- Persons selected for the Peer Review Team are required to receive peer review training or have conducted a peer review and/or prepared a self-assessment

c) Coordinate with the Peer Review Team Leader in developing an acceptable Engagement Letter or Memorandum of Understanding (MOU), including whether the agency prefers peer review results in a letter or a report. This document shall be signed by the Director, Team Leader, team members (optional), and a representative of the receiving agency's board/commission, relevant oversight body, or agency head

d) Coordinate with the Peer Review Team Leader in sending out a survey (e.g. e-mail or paper) to agency managers and other Internal Audit customers, as appropriate

e) Assist the Peer Review Team on a timely basis throughout the fieldwork process. This includes actions such as providing office space for the team members, scheduling interviews, providing the team with requested working papers, providing the team with requested documents, and scheduling entrance and exit conferences.

f) An agency that requests results in a report format should draft the "Detailed Results" portion of the report that describes how the internal audit function satisfies standards. This Peer Review Team will review and verify this section before including it in the final report.

g) Contact the Committee, in accordance with the Dispute Resolution Policies and Procedures, if an unresolved dispute arises during the Peer Review

h) Notify the Committee Records Administrator when the Peer Review has been completed, and provide the name of the agency that received the review and the names and employers of the Peer Review team leader and team members

i) Complete the Peer Review Survey and submit it to the Committee Records Administrator

j) Send a thank-you letter to the Team Leader and Team Member(s) thanking them for volunteering their time and expertise, and copy the Executive Director/Board, as appropriate

6. The SAIAF Peer Review Team responsibilities are as follows:

a) Initiate and coordinate with the Director in developing an acceptable Engagement Letter or MOU, according to item 5c above

b) The Team Leader will review and accept the Self-Assessment before performing fieldwork on the Peer Review

c) Coordinate fieldwork activities with the Director, including contacts with agency management and board members. The Peer Review Team should perform its work in a timely manner throughout the fieldwork process, such as conducting interviews and the entrance and exit conferences, and reviewing applicable documentation. If the agency requests a report format, the Peer Review Team will also review and verify the internal audit's "Detailed Results" portion of the report that describes how the internal audit function satisfies standards

d) Coordinate with the Director in sending surveys and conducting interviews with agency board members, key managers and other appropriate Internal Audit customers. The method used to conduct surveys and interviews should ensure the integrity and confidentiality of the process

e) Complete work promptly in accordance with agreed-upon schedules

f)   Maintain open communication with the Director during the Peer Review regarding the project status and results

g)   Contact the Committee, in accordance with the Dispute Resolution Policies and Procedures, if an unresolved dispute arises during the Peer Review

h)   Submit peer review results in a letter or report format to the Chief Audit Executive (CAE)/IA Director, Executive Management, and the Board

i)   Maintain the working papers for one year after the final report has been issued, in accordance with the Records Retention Policies and Procedures

j)   Notify the Committee Records Administrator when the Peer Review has been completed, and provide the name of the agency that received the review and the names and employers of the Peer Review team leader and team members

k)   Complete the Peer Review Survey and submit it to the Committee Records Administrator

Section 2.2: Reciprocity Policies and Procedures

Purpose

To provide SAIAF member agencies with guidance on providing equitable reciprocal participation on peer review teams. The SAIAF Peer Review Committee is responsible for maintaining records of participation in SAIAF sponsored peer reviews.

Policy

The Chief Audit Executives (CAEs)/Internal Audit Directors (Directors) who comprise the SAIAF membership will provide team members for other peer review teams if their agencies received a SAIAF sponsored peer review. Each SAIAF member agency participating in the SAIAF Peer Review Process is expected to earn as many participation points as were required for its most recent peer review, as outlined in Procedures below.

An agency accumulates participation points when its staff serves on a peer review team and uses these points when it undergoes a peer review at the following rates:

- 2 credit points for a Team Leader

- 1 credit point for a Team Member

- 2 credit points for a mediator, per the Dispute Resolution Policies and Procedures

For example, if the agency's last Peer Review Team consisted of 1 leader and 2 members, the agency must accumulate 4 participation points within three years of its most recent peer review.

Procedures

Agencies using the SAIAF Peer Review Process will follow the procedures outlined below:

1. Directors should follow this general guide for the number of persons to include on their Peer Review Teams (see Table 2).

Table 2

Size of Audit Function	Size of Peer Review Team	Points for Peer Review Team
Small, 1 to 2 persons	One Person	Team Leader – 2 points
Medium, 3 to 8 persons	Two Persons	Team Leader – 2 points Team Member – 1 point
Large, 9 or more persons	Three Persons	Team Leader – 2 points Team Members – 1 point Team Member – 1 point

2. An agency that has individuals participating in peer reviews as Team Members are entitled to their credits for participation unless the review is terminated prior the start of work on the review.

3. Each Director will be responsible for obtaining Team Members for his/her agency's Peer Review. After the review is complete, the Director will inform the SAIAF Peer Review Committee Records Administrator of the Team Members who performed the review and the agencies where they are employed. This information will be used to record Team Member participation in the master file of each Internal Audit Department's peer review data.

4. To ensure objectivity in fact and appearance, current and former Internal Audit department staff members should refrain from participating as a Team Leader or Team Member on the peer review of the Internal Audit Department that provided their most recent peer review.

Section 2.3: Self-Assessment Policies and Procedures

Purpose

One of the most important steps in the Peer Review Process is completing a thorough Self-Assessment. It lays the foundation for the Internal Audit Department's preparation for the Peer Review and provides key information for the Peer Review Team to use in performing the review.

These policies and procedures provide SAIAF member agencies with guidance about how to complete a comprehensive, acceptable Self-Assessment in preparation for a SAIAF Peer

Review. Adherence to these policies and procedures should facilitate a more efficient and effective Peer Review process for the Peer Review Team and the Internal Audit Department.

Policy

An acceptable Self-Assessment is one that has been completed in accordance with the required steps outlined under the procedures below. To be considered acceptable, a Self-Assessment must have been reviewed and determined complete by the Peer Review Team Leader prior to fieldwork.

Helpful Hints
IDENTIFY THE TEAM LEADER BEFORE YOU BEGIN YOUR SELF-ASSESSMENT.

Procedures

The following procedures outline the minimum guidelines for completing an acceptable Self-Assessment. If these requirements are fully met, the Self-Assessment should be considered acceptable.

1. An Internal Audit department must follow the Self-Assessment Policies and Procedures if receiving a SAIAF Peer Review. If an Internal Audit department plans to conduct a Self-Assessment in a manner that differs from the SAIAF approach, the Director should obtain approval from the SAIAF Peer Review Committee prior to conducting the Self-Assessment.

2. The Self-Assessment must be completed and provided to the Team Leader for acceptance before fieldwork for the Peer Review begins.

3. The following elements make up a comprehensive, acceptable Self-Assessment:

    a) Completion of the Compliance Standards, including comments and source references as needed to further explain items

    b) Preparation of a 3-ring binder or electronic reference file (a Teammate or other electronic working paper file is also acceptable) containing documents or copies referenced during completion of the Compliance Standards

    c) Completion of the Review of Audit Documentation for at least one audit. The audit selected for review should be a representative engagement conducted during the prior 12 months. The reviewer should include references to the relevant working papers/audit documentation

    d) Completion of the Summary of Issues with any findings, recommendations, and opportunities for improvement

    e) Preparation of a Self-Assessment report containing the following information, at a minimum:

        • Areas identified that need improvement

- Plan and implementation date for each of the areas of improvement identified

- A conclusion on compliance with the auditing standards

4. After completing the comprehensive Self-Assessment, the Director should contact the Team Leader to review the Self-Assessment materials. Deficiencies noted in the Self-Assessment will be communicated to the Director in writing. Deficiencies must be corrected before fieldwork for the Peer Review is started. After the Self-Assessment has been accepted, fieldwork for the Peer Review can begin.

Section 2.4: Dispute Resolution Policies and Procedures

Purpose

To provide SAIAF member agencies with guidance for resolving disputes arising in conjunction with Peer Reviews performed by SAIAF agency representatives.

Policy

The Directors who comprise the SAIAF membership are committed to communicating and interacting on a professional basis throughout all Peer Review activities. When difficulties arise during a Peer Review, the Director and the Team Leader will make every reasonable attempt to reach consensus on actions needed.

The SAIAF membership recognizes that occasionally some differences could benefit from third-party intervention and assistance. The SAIAF Peer Review Committee is available to assist with dispute resolution of Peer Review issues involving member agencies. Persons serving in the role of Mediator as described below earn a credit of 2 points, per the Reciprocity Policies and Procedures.

Procedures

Agencies that desire dispute resolution assistance from the Peer Review Committee will follow the procedures outlined below:

1. Both the Team Leader and Director will submit a written request for assistance to the Peer Review Committee Chair if third party intervention and assistance is needed regarding a Peer Review. If the Committee Chair is involved in the Peer Review, the request will be made to another Committee member. This request should describe the nature of the disagreement, the issues involved, and authoritative support as appropriate.

2. Within five working days of receiving the request, the Peer Review Committee Chair will assign a SAIAF member who is independent of the dispute to serve as a Mediator for the project. The Mediator will certify in writing that he or she does not have a conflict of interest with either party involved in the dispute.

3. The Mediator will communicate with both the Peer Review Team Leader and the Director for the purpose of determining the facts of the dispute. This may be done individually or jointly at the discretion of the Mediator.

4. Both parties to the dispute will provide additional documentation as requested by the Mediator.

5. The Mediator will meet with the parties and provide a recommended solution in writing within ten working days of receiving the assignment, with a copy forwarded to the Peer Review Committee Chair.

6. The parties will accept the Mediator's recommendation or develop an alternative solution that maintains the integrity of the peer review process and meets auditing standards and the IIA Code of Ethics.

7. The Mediator will notify the Committee Records Administrator when the Dispute Resolution has been completed so the points that were earned will be tracked for reciprocity purposes.

Section 2.5: Records Retention Policies and Procedures

Purpose

To provide SAIAF member agencies with guidance on how to maintain working papers for completed peer reviews.

Policy

The Peer Review Team Leader is responsible for control of the working papers during the Peer Review. The Team Leader will retain the working papers for one year after the final report has been issued.

Procedure

Agencies using the SAIAF Peer Review Process will follow the procedures outlined below:

1. Working papers maintained by the Peer Review Team will be kept secured and will not be released to anyone prior to the issuance of the Peer Review Report

2. After the Peer Review Report has been issued, the Team Leader will retain the Peer Review working papers for <u>one year</u> after the final report has been issued and then destroy them

3. The Peer Review Report should be kept in the department's permanent files

4. The Peer Review Team should consult with the SAIAF Peer Review Committee if questions arise regarding the maintenance or retention of Peer Review working papers

Section 3: SAIAF Peer Review Steps

Internal Audit functions receiving a SAIAF peer review should perform the steps in the following table.

Table 3

Step No.	Step to be Performed by Internal Audit Function	Performed By	Date
1.	Obtain and follow the SAIAF Peer Review Guidelines, including: • Ground Rules (See 2.1) • Reciprocity Policies and Procedures (See 2.2) • Self-Assessment Policies and Procedures (See 2.3) • Dispute Resolution Policies and Procedures (See 2.4) • Records Retention Policies and Procedures (See 2.5)		
2.	Negotiate and document the terms of the engagement letter with the Peer Review Team Leader (see Appendix A for recommended contents of SAIAF engagement letters and a sample Engagement Letter)		
3.	Complete a Self-Assessment according to SAIAF guidelines (See 2.3 SAIAF Self-Assessment Policies and Procedures), which includes: a) The completed Compliance Standard (See Appendix B) b) A review of at least one audit's set of working papers using the Review of Audit Documentation (see Appendix C) c) The completed Summary of Issues (see Appendix D) d) Sample index for Reference File (See Appendix E) e) If requested the peer review report format, prepare the "Detailed Results" section that describes how the audit function satisfies standards (see Appendix H)		
4.	Present Self-Assessment documents to Peer Review Team Leader to review before fieldwork begins.		
5.	Provide Review Team with a list of the names and contact information for all agency managers who have been involved in internal audits during the time period being reviewed.		

Step No.	Step to be Performed by Internal Audit Function	Performed By	Date
6.	Send e-mail notification to the list in #5 informing them that the Peer Review is occurring and that they may be contacted to complete a survey or to be interviewed.		
7.	Facilitate the scheduling of interviews with: • Executive Management • A sample of program managers who received audits or consulting engagements during the time period being reviewed • A sample of Board members, preferably including the Chair and an Audit Committee representative • Chief Audit Executive/Director of Internal Audit • Internal Audit staff External auditors, if relevant and cost-effective		
8.	Provide Review Team with working papers and other documents as requested.		
9.	Participate in exit conference with Review Team by providing any additional information, clarifications, or suggested wording revisions.		
10.	Review draft audit report.		
11.	Provide responses to the report, as needed.		
12.	Ensure that the Review Team submits the final report to Executive Management, the Board, and the Chief Audit Executive/Internal Audit Director.		
13.	Notify the Peer Review Committee about the Peer Review, including the names and agencies of the team members, so the database can be updated luis.solis@twc.state.tx.us		
14.	Complete the Peer Review Survey and submit it to the Peer Review Committee Records Administrator, currently luis.solis@twc.state.tx.us		
15.	Send a thank-you letter to the Team Leader and Team Member(s) and copy the Executive Director/Board, as appropriate.		

The SAIAF Peer Review Team should perform the steps in Table 4.

Table 4

Step No.	Step to be Performed by Peer Review Team	Performed By	Date
1.	Obtain and follow the SAIAF Peer Review Guidelines, including: • Ground Rules (see 2.1) • Reciprocity Policies and Procedures (see 2.2) • Self-Assessment Policies and Procedures (see 2.3) • Dispute Resolution Policies and Procedures (see 2.4) • Records Retention Policies and Procedures (see 2.5)		
2.	Negotiate and document the terms of the engagement letter with the Chief Audit Executive/IA Director receiving the Peer Review, including whether results are preferred in a letter or report format (See Appendix A for recommended contents of SAIAF engagement letters and a sample Engagement Letter.)		
3.	Review the Self-Assessment documents, including the completed Compliance Standards (Appendix B), Review of Audit Documentation (Appendix C), Summary of Issues (Appendix D), and Reference File (Appendix E). Approve if complete.		
4.	Send auditee surveys to a sample of agency managers who have been involved in audits during the time period being reviewed. (See Appendix F for sample message and Auditee Survey Questionnaire.)		
5.	Summarize auditee survey results. (See Appendix F for Summary of Survey Results.)		
6.	Start fieldwork/on-site work.		
7.	Conduct an entrance conference with the CAE/IA Director. It may also include the Executive Director, Board Chair, Audit Committee, and other relevant personnel.		
8.	Conduct interviews of the following (see Appendix G for Interview Questionnaires): • Executive Management		

Step No.	Step to be Performed by Peer Review Team	Performed By	Date
	• A sample of agency managers who received audits or consulting; engagements during the time period being reviewed		
	• A sample of board members, preferably including the Chair and an Audit Committee representative		
	• CAE/IA Director		
	• Internal Audit staff		
	• External auditors, if relevant and cost-effective		
9.	Document individual interview results, and then summarize all the interview results.		
10.	Use the Review of Audit Documentation to review at least one set of working papers that were not reviewed for the Self-Assessment.

*NOTE: The same tool is used for the Self-Assessment of working papers and for the Peer Review Team's working paper review. | | |
11.	Summarize your conclusions about the review of working papers in Summary of Issues and also to the letter or report as appropriate.		
12.	Write the draft audit report. (See Appendix H for sample peer review reports.)		
13.	Conduct an exit conference to discuss the draft report with CAE/IA Director and any others the IA Director chooses to include.		
14.	Make any agreed-upon revisions, and finalize the report.		
15.	Submit the complete final report to Executive Management, the Board, and the CAE/IA Director.		
16.	Meet with Executive Management and/or the Board to present the results, as agreed upon in the engagement letter or during the review process. (See Appendix I for sample agenda for presentation to Board/Management.)		
17.	Consider whether to provide a certification memo/plaque to the IA Director (see Appendix H).		

Step No.	Step to be Performed by Peer Review Team	Performed By	Date
18.	Notify the Peer Review Committee about the Peer Review, including the names and agencies of the team members, so the database can be updated. luis.solis@twc.state.tx.us		
19.	Complete the Peer Review Survey and submit it to the Peer Review Committee Records Administrator: luis.solis@twc.state.tx.us		
20.	Retain the Peer Review working papers for one year after the final report has been issued and then destroy them.		

Appendix A: SAIAF Peer Review Engagement Letter

SAIAF Peer Review Engagement letters should:

1. Be on letterhead of agency receiving the peer review

2. Name the peer review team leader and member(s)

3. State that the review team members do not have a conflict of interest with the agency receiving the peer review

4. State that the peer review will assess the internal audit activity's compliance with The Texas Internal Auditing Act, the IIA Code of Ethics and International Standards for the Professional Practice of Internal Auditing, and the GAO Generally Accepted Government Auditing Standards

5. State that the review will be conducted in accordance with the SAIAF Peer Review Manual

6. Identify the scope and time frame to be covered during the review

7. State that the responsibilities of the Chief Audit Executive (CAE)/IA Director include:

   a) Providing the Peer Review Team with a completed self-assessment, reference file, and self-assessment report

   b) Coordinating with the Peer Review Team in sending out a survey to a sample of representatives from agency management

   c) Informing the Peer Review Team whether they prefer results in a letter or report format. If they prefer the report format, the CAE/IA agrees to draft the description of how the audit function complies with standards.

   d) Assisting the Peer Review Team throughout the fieldwork process

   e) Providing management responses to the report, as needed

8. State that the responsibilities of the Peer Review Team will include:

   a) Reviewing all relevant documentation

   b) Administering a survey to a sample of representatives from agency management

   c) Reviewing the working papers of at least one project completed during the review period that is representative of the work performed during the period

   d) Conducting interviews of Internal Audit management and staff, and representatives from agency management, Board members, and external auditors

   e) Providing the CAE/Director with periodic progress updates

f) Issuing a final report on the observations and recommendations identified during the Peer Review to the CAE, with the complete report also issued to the members of the

9. Board and Executive Management

   a) Including in the report the Peer Review Team's opinion of whether the Internal Audit function passes, passes with deficiencies, or fails to comply with the Standards, as defined in the Peer Review Manual section 1, "Overview of the SAIAF Peer Review Process." The report also will include the Director's responses, including action plans for addressing any recommendations

   b) Retaining all working papers for one year after issuance of the report and then destroying them, in accordance with the SAIAF Records Retention Procedure (See 2.5)

10. List significant dates of the peer review

11. Include dated signatures of the Chief Audit Executive/IA Director, Agency Head, Board Chairman, and the Peer Review Team Leader

12. Optionally include dated signatures of the Chairman of the Audit Committee and Peer Review Team Members

Sample Engagement Letter

(on agency letterhead)

[Team Leader's Name]
[Title]
[Agency]
[Address]

[Team Member's Name]
[Title]
[Agency]
[Address]

[Date]

Dear [Team Leader and Member Names]:

This letter is to document the terms of our agreement regarding the peer review of the internal audit function at [Agency]. It is understood that [Team Leader's Name] will serve as the Peer Review Team Leader and [Team Member's Name] will serve as the Peer Review Team Member. No member of the review team has a conflict of interest with the [Agency] or the Internal Audit Department.

The Peer Review Team will perform a quality assurance review of the [Agency] internal audit activity to assess compliance with The Texas Internal Auditing Act (Texas Government Code, Chapter 2102), the Institute of Internal Auditors Code of Ethics and International Professional Practices Framework, and U.S. Government Accountability Office Government Auditing Standards in effect at the time the audits were conducted.

The review will be conducted in accordance with the State Agency Internal Audit Forum (SAIAF) Peer Review Manual. It will include all completed audit and consulting projects performed by the [Agency] Internal Audit Department from [date through date].

The Chief Audit Executive/Internal Audit Director (Director) agrees to:

- Provide the Peer Review Team with a completed self-assessment, reference file, and self-assessment report

- Coordinate with the Peer Review Team in sending out a survey to a sample of representatives from agency management

- Assist the Peer Review Team throughout the fieldwork process

- Provide management responses to the report as needed

The Peer Review Team Leader agrees to:

- Review and approve the self-assessment prior to starting on-site work for the review

- Retain all working papers for one year after the report has been issued, in accordance with the SAIAF Records Retention Procedure

The Peer Review Team (Team) agrees to:

- Review all relevant documentation

- Administer a survey to a sample of representatives from agency management

- Review the working papers of at least one project completed during the review period that is representative of the work performed during the period

- Conduct interviews of Internal Audit management and staff, and a sample of representatives from agency management, Board members, and external auditors

- Provide the Director with periodic progress updates

- Issue a final report on the observations and recommendations identified during the Peer Review to the Director, with the complete report also issued to the members of the Board and Executive Management

- Include the Peer Review Team's opinion in a [letter or report] on whether the internal audit function generally conforms/passes, partially conforms/passes with deficiencies, or does not conform/fails to comply with the Standards, as defined in the *SAIAF Peer Review Manual*, Table 1. The report will also include the Director's responses, including action plans for addressing any recommendations

The peer review will begin in [Month, Year], with fieldwork scheduled to start in [Month, Year]. A draft report will be provided to the Director for review by [Date] with a final report available to be released by [Date]. An exit conference will be scheduled with the Director and the [Agency] Executive Director.

The signatures below indicate that the terms of this agreement are acceptable.

_____   _____

[Name of IA Director receiving Peer Review]   Date
Director of Internal Audit
[Agency]

_____   _____
[Name of Executive Director]   Date
Executive Director
[Agency]

_____   _____
[Name]   Date
Chairman of the Board
[Agency]

_____   _____
[Name]   Date
Chairman of the Audit Committee
[Agency]

_____   _____
[Name of Team Leader]   Date
[Title]
[Team Leader's Agency]
Peer Review Team Leader

_____   _____
[Name of Team Member (optional)]   Date
[Title]
[Team Member's Agency]
Peer Review Team Member

cc: Luis Solis, Chairman, SAIAF Peer Review Committee

Appendix B: Compliance Standards

Compliance Standards

Entity Name:			
Preparer:		**Review Date:** 6T	
Reviewer:		**Review Period:** 6T to 6T	
Type of Assessment (check one)	☐ Internal - On-going monitoring	☐ Internal - Periodic self-assessment	☐ External
Overall Assessment:			

Instructions

Internal Assessment

An internal audit function may use this program at any time to satisfy the requirement of a Quality Assurance and Improvement Program for on-going monitoring and periodic internal and external quality assessments. The preparer will conclude on compliance by making one selection from the pull down menu:

- Yes = conforms/pass
- No = does not conform/fail
- OI = conforms/pass with opportunity for improvement
- N/A = not applicable

External Assessment

The <u>entity undergoing review</u> will complete the references column in advance of its peer review. If a section does not apply, indicate N/A under references.

The <u>peer review team</u> will review the documentation referenced and may also add other references as appropriate. The team will conclude on compliance by making one selection from the pull down menu:

- Yes = conforms/pass
- No = does not conform/fail
- OI = conforms/pass with opportunity for improvement
- N/A = not applicable

Comments should address--at a minimum --any "no" response and opportunities for improvement. The peer review team will carry forward those items the peer review team identifies as "no" and "OI" to the SAIAF Peer Review Recommendation form.

No.	Citation	Standard	References	Conform/ Pass
A	**ETHICS** Examples of Evidence: written charter, job descriptions, policies and procedures, other documentation demonstrating emphasis on the IIA's Code of Ethics.			
1	IA Act 2102.011, Code of Ethics, GAGAS 1.14	Does the charter or other Internal Audit document establish the expectation that audit staff will conform to the Institute of Internal Auditors' Code of Ethics and be guided by ethical principles?		
☆	**CONCLUSION**	**Ethics. Does the internal audit activity comply with Ethics requirements?**		
	COMMENTS:			
B	**PURPOSE, AUTHORITY, AND RESPONSIBILITY** Examples of Evidence: internal audit charter, policies and procedures, and board minutes.			
1	AS 1000, AS 1000.A1	Are the purpose, authority, and responsibility of the internal audit activity formally defined in a charter, consistent with the Standards, and approved by the board? Is the nature of assurance services, including those provided to outside parties, defined in the audit charter?		
2	AS 1000.C1	Is the nature of consulting services defined in the audit charter?		
3	AS 1010	Is the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards recognized in the internal audit charter? Has the chief audit executive discussed the Definition of Internal Auditing, the Code of Ethics, and the Standards with senior management and the board?		
☆	**CONCLUSION**	**Purpose, Authority, and Responsibility. Does the internal audit activity comply with the standard on defining purpose, authority, and responsibility?**		
	COMMENTS:			

No.	Citation	Standard	References	Conform/ Pass
C	**INDEPENDENCE and OBJECTIVITY** Examples of Evidence: a written charter, organizational charts, board minutes, audit plans, activity reports, position descriptions, memorandums, independence statements, peer review interviews.			
1	IA Act 2102.006(a)	Does the governing board of the state agency, or the administrator if the state agency does not have a governing board, appoint the internal auditor?		
2	IA Act 2102.007(a)(1)	Does the internal auditor report directly to the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board?		
3	IA Act 2102.007(b) GAGAS 3.31	Does the program of internal auditing conducted by a state agency provide for the auditor to: Have access to the administrator Be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the state agency's operation Is the Chief Audit Executive: Accountable to the head or deputy head of the government entity or to those charged with governance? Required to report the results of the audit organization's work to the head or deputy head of the government entity and to those charged with governance? Located organizationally outside the staff or line management functions of the unit under audit? Granted access to those charged with governance? Sufficiently removed from political pressures to conduct audits and		

No.	Citation	Standard	References	Conform/Pass
		report findings, opinions, and conclusions objectively without fear of political reprisal?		
4	GAGAS 3.46	Before agreeing to perform non-audit services, did the audit organization perform an assessment to determine if: ▪ The non-audit services are not expressly prohibited ▪ The auditor has determined that the requirements for performing non-audit services in paragraphs 3.49 through 3.58 have been met, including: a. Management is able to effectively oversee the nonaudit service to be performed b. Auditors obtained assurance that management assumes all management responsibilities; designates an individual who possesses suitable skill, knowledge, or experience to oversee the services; evaluates the adequacy and results of the services performed; and accepts responsibility for the results of the services c. Auditors documented their understanding with management regarding objectives; services to be performed; audited entity's acceptance of its responsibilities; the auditor's responsibilities; and any limitation of the nonaudit service d. An auditor who previously performed nonaudit services for an entity that is a prospective subject of an audit, evaluated the impact of those nonaudit services on independence before		

No.	Citation	Standard	References	Conform/ Pass
		accepting an audit e. An auditor in a government entity required to perform a nonaudit services disclosed the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement accordingly ▪ Any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards		
5	AS 1100	Independence and Objectivity. Is the internal audit activity independent, and are internal auditors objective in performing their work? *Interpretation:* *Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:* a. Approving the internal audit charter b. Approving the risk based internal audit plan c. Approving the internal audit budget and resource plan d. Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters e. Approving decisions regarding the appointment and removal of the chief audit executive		

No.	Citation	Standard	References	Conform/Pass
		f. Approving the remuneration of the chief audit executive g. Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations		
6	AS 1110	Organizational Independence. Does the chief audit executive report to a level within the organization that allows the internal audit activity to fulfill its responsibilities? Does the chief audit executive confirm to the board, at least annually, the organizational independence of the internal audit activity?		
7	AS 1110.A1	Is the internal audit activity free from interference in determining the scope of internal auditing, performing work, and communicating results?		
8	AS 1111	Direct Interaction With the Board. Does the Chief Audit Executive communicate and interact directly with the board?		
9	GAGAS 3.59	Documentation of Independence. Does the audit organization document threats to independence that require the application of safeguards, along with safeguards applied, in accordance with the conceptual framework for independence outlined in GAGAS 3.20 – 3.26?		
10	AS 1120 GAGAS 1.19	Individual Objectivity. Do the internal auditors have an impartial, unbiased attitude and avoid any conflict of interest?		
11	AS 1130	Impairments to Independence or Objectivity. If independence or objectivity is impaired in fact or appearance, are the details of the impairment disclosed to appropriate parties? (The nature of the		

No.	Citation	Standard	References	Conform/ Pass
		disclosure will depend upon the impairment.)		
12	1130.A1	Do the internal auditors refrain from assessing specific operations for which they were previously responsible within the previous year?		
13	1130.A2	Does a party outside the internal audit activity oversee assurance services over functions over which the Chief Audit Executive has been responsible?		
14	1130.C1 1130.C2	If internal auditors provide consulting services relating to operations for which they had previous responsibilities, are potential impairments to independence or objectivity disclosed to the client prior to performing consulting services?		
15	GAGAS 3.88	Does the audit organization have policies and procedures on independence, legal, and ethical requirements that are designed to provide reasonable assurance that the audit organization and its personnel maintain independence and comply with applicable legal and ethical requirements. Do the policies and procedures assist the audit organization in: ▪ Communicating independence requirements to its staff ▪ Identifying and evaluating circumstances and relationships that create threats to independence, and take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, withdraw from the audit where withdrawal is not prohibited by law or regulation		

No.	Citation	Standard	References	Conform/ Pass
16	GAGAS 3.08 – 3.09	In situations where the audit organization identifies a personal impairment to independence, is the impairment resolved in a timely manner? Is there a process to: ▪ Identify threats to independence ▪ Evaluate the significance of the threats identified, both individually and in the aggregate ▪ Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, is independence considered to be impaired?		
17	GAGAS 3.24	Has the audit organization established internal policies and procedures for identifying, applying safeguards and documenting conclusions on impairments to independence?		
☆	CONCLUSION	**Independence and Objectivity. Is the internal audit activity independent, and are the internal auditors objective in performing their work (AS 1100)? Independence. In all matters relating to the audit work, is the audit organization and are the individual auditors, whether government or public, independent (GAGAS 3.02)?**		
	COMMENTS:			
D	PROFICIENCY and PROFESSIONAL JUDGMENT			

PROFICIENCY and PROFESSIONAL JUDGMENT
Examples of Evidence: planning memos, audit programs, analytical reviews, risk assessments, audit tests and procedures, audit conclusions, staff resumes, professional certifications, hiring requirements, training records.

NOTE: The reviewer administering this section should also consider Standard 2300 - Performing the Engagement with specific attention to the proficiency of individual auditors on specific audits.

No.	Citation	Standard	References	Conform/Pass
1	IA Act 2102.006 (b)	Is the Chief Audit Executive a Certified Public Accountant or a Certified Internal Auditor? AND Does s/he have at least three years of auditing experience?		
2	AS 1210.A1 GAGAS 3.79 - 3.81	Does the chief audit executive obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement? Has the internal audit organization determined that external specialists who assist in performing a GAGAS audit are qualified and competent in their areas of specialization? Has the internal audit organization determined that internal specialists consulting on a GAGAS audit who are not involved in directing, performing audit procedures, or reporting on a GAGAS audit, are qualified and competent in their areas of specialization? (Note: These specialists do not have to comply with GAGAS CPE requirements. However, internal specialists who are involved in these activities must comply with GAGAS CPE requirements.)		
3	1210.A2	Do the internal auditors have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization? (NOTE: Internal auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.)		
4	1210.A3	Do the internal auditors have knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work? (NOTE: Not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is		

No.	Citation	Standard	References	Conform/ Pass
		information technology auditing.)		
5	1210.C1	Does the chief audit executive decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement?		
6	GAGAS 3.70	Does the audit organization have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce?		
7	AS 1210 GAGAS 3.72	Proficiency. Do internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities? Does the internal audit activity collectively possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities? Do the staff members collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment?		
8	AS 1220 1220.A1	Due Professional Care. Do the internal auditors apply the care and skill expected of a reasonably prudent and competent internal auditor? (NOTE: Due professional care does not imply infallibility.) Do the internal auditors exercise due professional care by considering the: ▪ Extent of work needed to achieve the engagement's objectives ▪ Relative complexity, materiality, or significance of		

No.	Citation	Standard	References	Conform/ Pass
		matters to which assurance procedures are applied ▪ Adequacy and effectiveness of governance, risk management, and control processes ▪ Probability of significant errors, fraud, or noncompliance ▪ Cost of assurance in relation to potential benefits		
9	1220.A2	In exercising due professional care, do the internal auditors consider the use of technology-based audit and other data analysis techniques?		
10	1220.A3	Are the internal auditors alert to the significant risks that might affect objectives, operations, or resources? (NOTE: Assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.)		
11	1220.C1	Do the internal auditors exercise due professional care during a consulting engagement by considering the: ▪ Needs and expectations of clients, including the nature, timing, and communication of engagement results ▪ Relative complexity and extent of work needed to achieve the engagement's objectives ▪ Cost of the consulting engagement in relation to potential benefits		
12	AS 1230	Continuing Professional Development. Do the internal auditors enhance their knowledge, skills, and other competencies through continuing professional		

No.	Citation	Standard	References	Conform/ Pass
		development?		
13	GAGAS 3.76 GAGAS 3.78	Does the audit organization maintain quality control procedures, including documentation, to help ensure that each auditor completed Continuing Professional Education (CPE) in accordance with the following? ▪ Complete 24 hours of CPE every 2 years that directly relate to governmental auditing, the government environment, or the specific/unique environment in which the audited entity operates ▪ At least an additional 56 hours (for a total of 80 hours every two year period) that directly enhance the auditor's professional proficiency to perform audits and/or attestation engagements ▪ At least 20 of the 80 hours completed in each year of the 2-year period. Or, if hired in the middle of a 2-year period, complete a defined pro-rated number of CPE hours		
14	GAGAS 3.79	IF USING THE WORK OF EXTERNAL & INTERNAL SPECIALISTS. Does the audit organization ensure such specialists are qualified and competent in their areas of specialization?		
15	GAGAS 3.81	IF USING THE WORK OF INTERNAL SPECIALISTS. Does the audit organization ensure that internal specialists performing work as part of the audit team are meeting GAGAS CPE requirements?		
☆	CONCLUSION	Proficiency and Due Professional Care. Are engagements performed with proficiency and due professional care (AS 1200)? Professional Judgment. Is professional judgment used in planning and performing audits and in reporting the		

No.	Citation	Standard	References	Conform/ Pass
		results (GAGAS 3.60)? Competence. Does the staff assigned to perform the audit collectively possess adequate professional competence for the tasks required (GAGAS 3.69)?		
	COMMENTS:			
E		**QUALITY ASSURANCE AND IMPROVEMENT PROGRAM** Examples of Evidence: working paper review checklists, periodic evaluations of auditors, auditor position descriptions, written results of internal self- assessments, written external review reports. NOTE: An internal review program, particularly in smaller internal audit departments, will require adaptations that take into consideration the structure of the department and the degree of the director's involvement in individual audits.		
1	IA Act 2102.007(a)(5)	Does the Chief Audit Executive conduct quality assurance reviews in accordance with the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the International Professional Practices Framework as promulgated by the Institute of Internal Auditors, and generally accepted government auditing standards, and periodically take part in a comprehensive external peer review?		
2	AS 1310	Requirements of the Quality Assurance and Improvement Program – Does the quality assurance and improvement program include both internal and external assessments?		
3	AS 1311	Internal Assessments. Do internal assessments include: ▪ Ongoing monitoring of the performance of the internal audit activity ▪ Periodic self-assessments or assessments by other persons within the organization who have		

No.	Citation	Standard	References	Conform/ Pass
		sufficient knowledge of internal audit practices		
4	GAGAS 3.83 GAGAS 3.85	Does the audit organization's system of quality control encompass the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements that collectively address the following? ▪ Leadership responsibilities for quality within the audit organization (GAGAS 3.86-3.87) ▪ Independence, legal, and ethical requirements (GAGAS 3.88) ▪ Initiation, acceptance, and continuance of audit engagements (GAGAS 3.89) ▪ Human resources (GAGAS 3.90) ▪ Audit performance, documentation, and reporting (GAGAS 3.91-3.92) ▪ Monitoring of quality (GAGAS 3.93-3.95)		
5	GAGAS 3.84	Does the audit organization do the following? ▪ Document its quality control policies and procedures ▪ Communicate those policies and procedures to its personnel ▪ Document compliance with its quality control policies and procedures		

No.	Citation	Standard	References	Conform/Pass
		▪ Maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures		
6	GAGAS 3.95	Does the audit organization analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement along with recommendations for corrective action?		
7	AS 1312	External Assessments. Are external assessments, such as quality assurance reviews, conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization? The chief audit executive must discuss with the board: The form and frequency of external assessments The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest		
8	GAGAS 3.96	Does the audit organization have an external peer review at least once every 3 years by reviewers independent of the audit organization being reviewed to determine if the audit organization is conforming to applicable professional standards? (This review should include determining if the system of quality control was suitably designed and whether the audit organization is complying with its quality control system.)		

No.	Citation	Standard	References	Conform/ Pass
		Did the audit organization take remedial, corrective actions as needed based on the results of the peer review? (While the Yellow Book is currently silent on this matter, the SAIAF encourages consideration be given to this area.)		
9	AS 1320	Reporting on the Quality Assurance and Improvement Program. Does the chief audit executive communicate the results of the quality assurance and improvement program to senior management and the board at least annually?		
10	GAGAS 3.105	Does the chief audit executive provide a copy of the external peer review report to those charged with governance including the appropriate oversight bodies?		
11	AS 1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing." Does the chief audit executive state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement?		
12	AS 1322	Disclosure of Nonconformance. If nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, does the chief audit executive disclose the nonconformance and the impact to senior management and the board?		
13	GAGAS 2.23	Stating Compliance with GAGAS in the Auditors' Report. Does the audit organization refer to compliance with GAGAS in its audit reports, as appropriate with the level of compliance outlined in GAGAS 2.24 – 2.25?		

No.	Citation	Standard	References	Conform/Pass
☆	CONCLUSION	**Quality Assurance and Improvement Program. Does the chief audit executive develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and assesses the efficiency and effectiveness and identifies opportunities for improvement (AS 1300)? Quality Control and Assurance. When performing audits or attestation engagements in accordance with GAGAS, has the audit organization established and maintained a system of quality control that is designed to provide reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements; and does it have an external peer review at least once every 3 years (GAGAS 3.82)?**		
	COMMENTS:			
F	**MANAGING THE INTERNAL AUDIT ACTIVITY** Examples of Evidence: policies and procedures, established audit processes, IA budget, audit plan, risk assessment, annual report, status reports, project budget to actual time comparisons, interviews and surveys with management.			
1	IA Act 2102.005(1) & 2102.007 (a)(2)	Does the chief audit executive develop an annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year?		
2	PS 2010	Planning. Has the chief audit executive established risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals?		
3	2010.A1	▪ Is the internal audit activity's plan of engagements based on a documented risk assessment undertaken at least annually? ▪ Is the input of senior management and the board considered in this process?		
4	2010.C1	▪ Does the chief audit executive consider accepting proposed consulting engagements based on the engagement's		

No.	Citation	Standard	References	Conform/ Pass
		potential to improve management of risks, add value, and improve the organization's operations? ▪ Are engagements that have been accepted included in the plan?		
5	IA Act 2102.007(a)(3)	Has the chief audit executive conducted audits specified in the audit plan and documented deviations?		
6	PS 2020	▪ Communication and Approval. Does the chief audit executive communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval? ▪ Has the chief audit executive also communicated the impact of resource limitations?		
7	IA Act 2102.006(d)	Does the governing board of the state agency, or the administrator of the state agency if the state agency does not have a governing board, periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame?		
8	IA Act 2102.008	Is the annual audit plan that is developed by the chief audit executive approved by the state agency's governing board, or by the administrator of the state agency if the state agency does not have a governing board?		
9	PS 2030	Resource Management. Does the chief audit executive ensure that internal audit resources are appropriate, sufficient, and		

No.	Citation	Standard	References	Conform/ Pass
		effectively deployed to achieve the approved plan?		
10	PS 2040	Policies and Procedures. Has the chief audit executive established policies and procedures to guide the internal audit activity?		
11	PS 2050	Coordination. Does the chief audit executive share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts?		
12	PS 2060	Reporting to Senior Management and the Board. ▪ Does the chief audit executive report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan? ▪ Does the reporting include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board?		
13	IA Act 2102.0091 and 2102.015	▪ Does the chief audit executive prepare an annual report and submit the report before November 1 of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator? ▪ Do the form and content of the report conform to the State Auditor's instructions? ▪ Does the agency post on its Internet website the approved		

No.	Citation	Standard	References	Conform/ Pass
		internal audit plan and annual report?		
☆	CONCLUSION	**PS 2000 Managing the Internal Audit Activity. Does the chief audit executive effectively manage the internal audit activity to ensure it adds value to the organization?**		
	COMMENTS:			
G	**NATURE OF WORK** NOTE: This standard requires audits to include a review the adequacy of the system of internal control to ascertain whether the system provides reasonable assurance that the organization's objectives will be met efficiently and economically. Examples of Evidence: risk assessment, annual audit plan, planning documents for specific audits.			
1	IA Act 2102.005 (2)	Does the program of internal auditing include periodic audits of the agency's major systems and controls, including: ▪ Accounting systems and controls ▪ Administrative systems and controls ▪ Electronic data processing systems and controls		
2	IA Act 2102.007(6)	Does the chief audit executive conduct economy and efficiency audits and program results audits as directed by the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board?		
3	PS 2100	Nature of Work. Does the internal audit activity evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach?		
4	PS 2110	Governance. Does the internal audit activity assess and make appropriate recommendations for improving the governance process in its accomplishment of the following		

No.	Citation	Standard	References	Conform/ Pass
		objectives: ▪ Promoting appropriate ethics and values within the organization ▪ Ensuring effective organizational performance management and accountability ▪ Communicating risk and control information to appropriate areas of the organization ▪ Coordinating the activities of and communicating information among the board, external and internal auditors, and management		
5	2110.A1	Does the internal audit activity evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities?		
6	2110.A2	Does the internal audit activity assess whether the information technology governance of the organization sustains and supports the organization's strategies and objectives?		
7	PS 2120	Risk Management. Does the internal audit activity evaluate the effectiveness and contribute to the improvement of risk management processes? *Interpretation: Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:* ▪ Organizational objectives support and align with the organization's mission		

No.	Citation	Standard	References	Conform/ Pass
		▪ Significant risks are identified and assessed		
		▪ Appropriate risk responses are selected that align risks with the organization's risk appetite		
		▪ Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities		
		Does the internal audit activity gather the information to support this assessment during multiple engagements? The results of these engagements, when viewed together, should provide an understanding of the organization's risk management processes and their effectiveness.		
		Are risk management processes monitored through ongoing management activities, separate evaluations, or both?		
8	2120.A1	Does the internal audit activity evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the following?		
		▪ 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		

No.	Citation	Standard	References	Conform/ Pass
		▪ Compliance with laws, regulations, policies, procedures and contracts		
9	2120.A2	Does the internal audit activity evaluate the potential for the occurrence of fraud and how the organization manages fraud risk?		
10	2120.C1	During consulting engagements, do the internal auditors address risk consistent with the engagement's objectives, and are they alert to the existence of other significant risks?		
11	2120.C2	Do the internal auditors incorporate their knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes?		
12	2120.C3	When assisting management in establishing or improving risk management processes, do internal auditors refrain from assuming any management responsibility by actually managing risks?		
13	PS 2130	Control. Does the internal audit activity assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement?		
14	2130.A1	Does the internal audit activity evaluate the adequacy and effectiveness of controls in responding to risks 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		

No.	Citation	Standard	References	Conform/ Pass
		▪ Safeguarding of assets ▪ Compliance with laws, regulations, policies, procedures and contracts		
15	2130.C1	Are internal auditors incorporating knowledge of controls gained from consulting engagements into evaluations of the organization's control processes?		
☆	CONCLUSIONS	**Nature of Work. Does the internal audit activity evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach (PS 2100)?**		
	COMMENTS:			
H	**MONITORING PROGRESS** Examples of Evidence: policies and procedures, follow up process, reports, and documentation from a tracking system.			
1	PS 2500.A1	Has the chief audit executive established a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action?		
2	PS 2500.C1	Does the internal audit activity monitor the disposition of results of consulting engagements to the extent agreed upon with the client?		
3	PS 2500	Monitoring Progress – Has the chief audit executive established and maintained a system to monitor the disposition of results communicated to management?		
☆	CONCLUSIONS	**Monitoring Progress. Has the chief audit executive established and maintained a system to monitor the disposition of results communicated to management (PS 2500)?**		
	COMMENTS:			

Appendix C: Review of Audit Documentation

Review of Audit Documentation

Entity Name:			
Engagement Name:			
Preparer:		Review Date: 6T	
Reviewer:		Review Period: 6T to 6T	
Type of Assessment (check one)	☐ Internal - On-going monitoring	☐ Internal - Periodic self-assessment	☐ External
Overall Assessment:			

Internal Assessment

An internal audit function may use this program to review audit documentation for an individual engagement at any time to satisfy the requirement of a Quality Assurance and Improvement Program for on-going monitoring and periodic internal and external quality assessments. The preparer will conclude on compliance by making one selection from the pull down menu:

- Yes = conforms/pass
- No = does not conform/fail
- OI = conforms/pass with opportunity for improvement
- N/A = not applicable

One form should be completed for each engagement reviewed.

External Assessment

The peer review team should complete one of these forms for each engagement it reviews. The preparer will conclude on compliance by making one selection from the pull down menu:

- Yes = conforms/pass
- No = does not conform/fail
- OI = conforms/pass with opportunity for improvement
- N/A = not applicable

The peer review team should consider exceptions across all engagements reviewed to determine if the exception is systemic or engagement-specific. Use auditor judgment to determine if exceptions are non-compliance issues or opportunities for improvement. Recommendations should be carried forward the Summary of Issues form.

Compliance Standard	Comply /Pass	References
PLANNING CONCLUSIONS		
1. Do the internal auditors develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations? (PS 2200)		
2. Do the auditors adequately plan and document the planning of the work necessary to address the audit objectives? (GAGAS 6.06-6.12)		
3. Did the internal auditor determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources? (PS 2230)		
4. Did the internal auditor develop and document work programs that achieve the engagement objectives? (PS 2240)		
Conclusion:		
SCOPE		
5. Is the internal auditor's scope sufficient to achieve the objectives of the engagement? (PS 2220)		
6. Did the auditors adequately identify and define the scope, and was it directly tied to the objectives of the engagement? (GAGAS 6.09)		
Conclusion:		
PERFORMING THE ENGAGEMENT		
7. Do the internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives? (PS 2300)		
8. Are audit staff properly supervised? (GAGAS 6.53-6.55; PS 2340)		
9. Is sufficient, appropriate evidence obtained to provide a reasonable basis for the auditors' findings and conclusions? (GAGAS 6.56-6.78; PS 2320)		
10. Do the auditors prepare audit documentation related to planning, conducting, and reporting for each audit in sufficient detail to enable an experienced auditor, who has had no previous connection with the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions? Do the auditors prepare audit		

Compliance Standard	Comply /Pass	References
documentation that contains support for findings, conclusions, and recommendations before they issue their report? (GAGAS 6.79-6.85)		
Conclusion:		
REPORTING		
11. Do the internal auditors communicate the engagement results as required? (PS 2400 – PS 2450)		
12. Do the auditors issue reports communicating the results of each completed performance audit? (GAGAS 7.03)		
13. Do the auditors use a form of the audit report that is appropriate for its intended use in writing or in some other retrievable form? (GAGAS 7.04)		
14. Do the auditors prepare reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with generally accepted government auditing standards; (4) a summary of the views of responsible officials; and, (5) if applicable, the nature of any confidential or sensitive information omitted? (GAGAS 7.08)		
15. Is the report timely, complete, accurate, objective, convincing, clear, and as concise as the subject permits? (GAGAS A7.02)		
16. Distributing Reports. Are audit reports distributed to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits? (GAGAS 7.44 a)		
Conclusion:		
RESOLUTION OF MANAGEMENT'S ACCEPTANCE OF RISKS Examples of Evidence: Interviews and discussions of Chief Audit Executive and organization management regarding acceptance of risks		
17. When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, does the chief audit executive discuss the matter with senior management? (PS 2600) If the decision regarding residual risk is not resolved; does the chief audit executive report the matter to the board for resolution?		
Conclusion:		

Appendix D: Summary of Issues

Summary of Issues

Entity Name:			
Preparer:		Review Date: 6T	
Reviewer:		Review Period: 6T to 6T	
Type of Assessment (check one)	☐ Internal - On-going monitoring	☐ Internal - Periodic self-assessment	☐ External
Overall Assessment:			

Instructions: For every issue that the peer review team determines should be carried forward from the Compliance Standards and Review of Audit Documentation forms, the peer review team should identify the applicable auditing standard (standard reference) and the corresponding number (e.g., E3), describe the issue, develop a recommendation, and indicate whether the issue is an example of "does not comply/fail" or an "opportunity for improvement" (OI). Add rows as necessary.

Peer Reviews are intended to help the Internal Audit function and the organization receiving the review. In addition to evaluating compliance with Standards and the Act and identifying any instances of noncompliance, peer reviews provide an opportunity to identify best practices and opportunities for improvement for the Internal Audit function's consideration. An OI does not require any action on the part of the organization; however the organization should give them serious consideration. The organization should provide a management response indicating what action, if any, they will take.

No.	Standard Reference	Issue	Recommendation	Does not comply/Fail	OI
E3	S1311	The audit function does not perform periodic self-assessments.	The internal audit activity should develop and implement a policy to perform periodic self-assessments by agency staff who have sufficient knowledge of internal audit practices.	X	

Appendix E: Index for Reference File

Sample Reference File Index

[Agency Name]
Peer Review Self-Assessment FY [YR]

Appendix F: Auditee Surveys

Peer Review Survey of Internal Audit Function's Agency

**Sample Message to Send with
Auditee Survey Questionnaires**

As the Team Leader for the peer review of the [Agency] Internal Audit function, I am requesting your input on the attached survey. Please return the completed survey to me as an e-mail attachment by close of business [date 2 weeks from date sent].

The purpose of the peer review is to ensure compliance with internal auditing standards and identify any opportunities for improvement. The original survey responses will be confidential. The Chief Audit Executive/Director of Internal Audit will be provided with a summary of the results, not the detailed results or the source of the comments. Therefore, you can be completely open in your remarks. Feel free to contact me if you have questions or need more information.

Thank you in advance for participating in the survey,

[Name, Title, and Agency of Team Leader]

Indicate the extent to which you agree or disagree with statements and characteristics regarding the agency's internal audit department.	4 Strongly Agree	3 Agree	2 Disagree	1 Strongly Disagree	Avg. Rating
1 Demonstrate and promote ethical behavior					
2 Objective and independent					
3 Technically proficient					
4 Professional and courteous					
5 Work well with management					
6 Solicit and consider your input for annual audit plan					
7 Communicate audit objectives and scope					
8 Communicates status of audit, including preliminary issues and findings					
9 Duration of audits is the right amount of time					
10 Audit reports are accurate, clear, and balanced					
11 Audit recommendations are reasonable and will improve internal controls, compliance with laws, and agency operations.					
12 Follow up on implementation of corrective actions					
13 Secure confidential and sensitive information					
14 Overall, the internal audit department adds value by improving operational efficiency and effectiveness					

1. What Internal Audit practices do you especially like and want them to retain?

   _____

   _____

2. What Internal Audit practices would you like them to change or add?

   _____

   _____

3. Additional Comments:

   _____

   _____

Your Name (optional):   _____

Summary of Results

Note: Average ratings are calculated based on responses rated 1 through 4 and do not include N/A.

	Indicate the extent to which you agree or disagree with statements and characteristics regarding the agency's internal audit department.	4 Strongly Agree	3 Agree	2 Disagree	1 Strongly Disagree	Avg. Rating
1	Demonstrate and promote ethical behavior					
2	Objective and independent					
3	Technically proficient					
4	Professional and courteous					
5	Work well with management					
6	Solicit and consider your input for annual audit plan					
7	Communicate audit objectives and scope					
8	Communicates status of audit, including preliminary issues and findings					
9	Duration of audits is the right amount of time					
10	Audit reports are accurate, clear, and balanced					
11	Audit recommendations are reasonable and will improve internal controls, compliance with laws, and agency operations.					
12	Follow up on implementation of corrective actions					
13	Secure confidential and sensitive information					
14	Overall, the internal audit department adds value by improving operational efficiency and effectiveness					

Detailed excerpts from surveys:

Appendix G: Interview Questions

Interview Questionnaire
Board/Commission Member

Person Interviewed:_____Date: _____

IIA Code of Ethics
1. How Do the Internal Auditors demonstrate and promote ethical behavior?

1000 Purpose, Authority, and Responsibility
2. Do you think the Internal Audit charter that was approved by the Commission/Board provides Internal Audit with sufficient authority to fulfill its responsibilities?

1100 Independence and Objectivity
3. Does Internal Audit appear to be independent and objective?

1200 Proficiency and Due Professional Care
4. What is your opinion of the Chief Audit Executive and Internal Audit staff's:
   - Ability?
   - Professionalism?
   - Communication Skills?

1300 Quality Assurance and Improvement Program
5. Are the results of external quality assurance reviews (peer reviews) communicated to you and the rest of the Board/Commission?

2000 Managing the Internal Audit Activity
6. Internal Audit develops a risk-based Annual Audit Plan to determine its priorities.
7. How do you provide input to the risk assessment?
8. Does the Board/Commission approve the Annual Audit Plan?

2400 Communicating Results
9. Are audit reports accurate, clear, concise, constructive, complete and timely?

General Questions
10. What changes would you make to Internal Audit, if any?

Interview Questionnaire
Executive Management

Person Interviewed: _____ Date: _____

IIA Code of Ethics
1. Do the Internal Auditors demonstrate and promote ethical behavior?

1000 Purpose, Authority, and Responsibility
2. Do you think internal audit has the appropriate authority to carry out its purpose?

1100 Independence and Objectivity
3. Does Internal Audit appear to be independent and objective?

1200 Proficiency and Due Professional Care
4. Do you think the internal auditors have the knowledge and skills to perform their responsibilities?

1300 Quality Assurance and Improvement Program
5. Does Internal Audit obtain management's feedback about its effectiveness?
   - If so, how is this done?

2000 Managing the Internal Audit Activity
6. Do you provide input to the risk assessment and planning process?
   - If so, please describe how your input is obtained and used?
7. Do you think the Chief Audit Executive/Internal Audit Director manages the internal audit function effectively?

2100 Nature of Work
8. Does internal audit help improve the organization's risk management and control systems?

2400 Communicating Results
9. Are audit reports clear, accurate, and concise?
10. Do the reports acknowledge satisfactory performance when appropriate?

2600 Resolution of Senior Management's Acceptance of Risks
11. Does Internal Audit discuss with you the implications of accepting risks?

General Questions
12. What changes would you make to Internal Audit, if any? Why?

Interview Questionnaire
Internal Audit Director

IIA Code of Ethics

1. How do you ensure the IIA Code of Ethics is communicated within your department?

1000 Purpose, Authority, and Responsibility

2. Do you think internal audit has the appropriate authority to carry out its mission?
3. Does Internal Audit perform consulting engagements as well as audits?

1100 Independence and Objectivity

4. Who does Internal Audit report to, and do you think the reporting relationship is appropriate?
5. Is Internal Audit free from the management decision-making function and operating responsibilities?
6. How do you ensure Internal Audit is independent and objective?
7. What actions are taken to address impairments to independence or objectivity?

1200 Proficiency and Due Professional Care

8. How do you ensure that the internal auditors have the knowledge and skills to perform their responsibilities?

1300 Quality Assurance and Improvement Program

9. How is internal audit work supervised, and do you think the supervision is adequate?
10. Do you obtain management's feedback about Internal Audit's effectiveness?
11. If so, how is this done?

2000 Managing the Internal Audit Activity

12. Do you develop a risk-based plan for Internal Audit at least annually to determine your priorities? Who provides input to the risk assessment and planning process, and how is the input used?
13. Does Internal Audit have any resource limitations? If so, how do you ensure they are addressed?

2100 Nature of Work

14. What kinds of audits does the Internal Audit department perform?
15. In what ways does Internal Audit contribute to the improvement of risk management, control, and governance systems of the organization?

2200 Engagement Planning
    16. How is audit planning performed, who is involved, and what approvals are required?
    17. How are the scope and objectives of audits determined, and who approves them?
    18. How and when do you inform the auditees of the audit objectives and scope?

2300 Performing the Engagement
    19. How do you ensure that audits are adequately supervised?
    20. Do you work with the auditees to ensure that proposed recommendations are practical and cost-effective?

2400 Communicating Results
    21. How is the reporting process performed, who is involved, and what approvals are required?
    22. How do you ensure that internal audit reports are disseminated to the appropriate individuals?

2500 Monitoring Progress
    23. How do you monitor whether the issues identified in reports are resolved?

2600 Resolution of Senior Management's Acceptance of Risks
    24. Do you inform the board if you believe that senior management has accepted a level of residual risk that is unacceptable to the organization?

General Questions
    25. What changes would you make to Internal Audit, if any?

Interview Questionnaire
Internal Audit Staff

Person Interviewed:_____Date: _____

IIA Code of Ethics

1. In what ways does Internal Audit demonstrate and promote ethical behavior?

1000 Purpose, Authority, and Responsibility

2. What do you consider the mission of internal audit?
3. Do you think Internal Audit has the appropriate authority to carry out its mission?
4. Do you think the internal audit coverage, including information technology audit, is adequate?
5. Does Internal Audit perform consulting engagements as well as audits? If so, what do you consider the most significant differences between an audit and a
6. consulting engagement?

1100 Independence and Objectivity

7. Who does Internal Audit report to, and do you think the reporting relationship is appropriate?
8. Is Internal Audit free from the management decision-making function and operating responsibilities?
9. What actions are taken to ensure Internal Audit is independent and objective?
10. How are impairments to independence or objectivity addressed?

1200 Proficiency and Due Professional Care

11. Do you think the internal auditors have the knowledge and skills to perform their responsibilities?
12. Do internal auditors have opportunities to enhance their knowledge and skills through continuing professional development?
13. Do internal auditors have access to specialized training when needed?

1300 Quality Assurance and Improvement Program

14. Does Internal Audit obtain management's feedback about its effectiveness? If so, how is this done?
15. How is your work supervised, and do you think the supervision is adequate?
16. What is the performance evaluation process used for internal auditors? (e.g. annual evaluations, project evaluations, etc.)

2000 Managing the Internal Audit Activity

17. Does Internal Audit develop a risk-based plan at least annually to determine its priorities? If you are involved in the process, please describe it.
18. Who provides input to the risk assessment and planning process, and how is the input used?
19. Does Internal Audit have any resource limitations? If any, how are they addressed?

2100 Nature of Work

20. What kinds of audits does Internal Audit perform?
21. In what ways does Internal Audit contribute to the improvement of risk management, control, and governance systems of the organization?

2200 Engagement Planning

22. How is audit planning performed, who is involved, and what approvals are required?
23. How are the scope and objectives of audits determined, and who approves them?
24. How and when are auditees informed of the audit objectives and scope?

2300 Performing the Engagement

25. What is the process for ensuring the conclusions internal audit reports are based on sufficient factual evidence?

2400 Communicating Results

26. How is the reporting process performed, who is involved, and what approvals are required?
27. Are the results of audits and consulting projects communicated promptly?
28. Are the reports constructive, and do they acknowledge satisfactory performance when appropriate?
29. Do the reports provide recommendations for correcting problems that are practical and cost-effective?
30. Do you think internal audit reports are disseminated to the appropriate individuals?

2500 Monitoring Progress

31. How does internal audit monitor whether the issues identified in reports are resolved?

2600 Resolution of Senior Management's Acceptance of Risks

32. Does the Chief Audit Executive/Internal Audit Director inform the board if Internal Audit believes that senior management has accepted a level of residual risk that is unacceptable to the organization?

General Questions

33. If you were to give Internal Audit a letter grade of A through F, what grade would you give it?
34. What changes would you make to Internal Audit, if any?

Appendix H: Sample Peer Review Report

Peer Review Letter Report

[Date]

[Audit Director Name, Title and Address]

Dear [Mr./Ms. Audit Director Name],

We have completed a peer review of the [Agency Under Review] for the period [Review period]. In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards,* and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the IIA *Standards,* the GAO *Standards*, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the [Agency Under Review] Internal Audit Department receives a rating of [incorporate one of the ratings and report language below into your report draft]

a. "**Pass/Generally Conforms**" and is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

b. "**Pass with Deficiencies/Partially Conforms**". It is our opinion that, except for the deficiencies noted below, the [Agency Under Review's] internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the [Review Period].

    Deficiencies found in your internal quality control system include [Cite/List Deficiencies]. These control deficiencies resulted in recurring nonconformance with [Cite/List Standards].

c. "**Fail/Does Not Conform**" and is not in compliance with the *Standards* for assurance and consulting engagements during the [Review Period].
    We found serious deficiencies in your internal quality control system relating to [Cite/List Deficiencies]. These control deficiencies resulted in recurring nonconformance with [Cite/List Standards].

SAIAF Letterhead

We have prepared a separate letter providing details of our findings and recommendations for strengthening your internal quality control system. [This sentence is optional if the **Pass/Generally Conforms** rating is awarded and appropriate if a management letter is issued.]

To the extent lawful, [Audit Organization] agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.

_____   _____   _____
[Team Leader]   [Team Member]   [Team Member]
[Leader Organization]   [Member Organization]   [Member Organization]

CC:
Attachment A: Conformance Rating Definitions

Full Peer Review Report

Report on the External Quality Assurance Review of the

[Agency Reviewed]

Internal Audit Department

[Month], [Year]

Performed by

[Team Leader's Name]
Director of Internal Audit
(Team Leader's Agency)

[Team Member's Name]
Internal Auditor
[Team Member's Agency]

Performed in Accordance with the
State Agency Internal Audit Forum
Peer Review Policies and Procedures

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the [Agency Reviewed] Internal Audit Department receives a rating of "**Pass/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Chairman and Vice-Chairman of the Board, the Executive Director, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.

[Name of Team Leader]	Date	[Name of Team Member]	Date
Director of Internal Audit		Internal Auditor	
[Team Leader's Agency]		[Team Member's Agency]	
SAIAF Peer Review Team Leader		SAIAF Peer Review Team Member	

Background

The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act require that internal audit functions obtain external quality assurance reviews to assess compliance with standards and the Act and to appraise the quality of their operations. Government auditing standards require these reviews at least every three years. A periodic external quality assurance review, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program. This quality assurance review was performed in accordance with State Agency Internal Audit Forum (SAIAF) Peer Review guidelines.

The most recent quality assurance review for the [Agency Reviewed] Internal Audit Department was performed in [Month Year]. The Internal Audit Department has made significant progress in implementing the recommendations made in the report on the previous quality assurance review.

Objectives, Scope, and Methodology

The primary objective of the quality assurance review was to evaluate the [Agency Reviewed] Internal Audit Department's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and management assistance projects performed by the [Agency Reviewed] Internal Audit Department from [Month, Year] through [Month, Year].

The work performed during the review included:
- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Department according to SAIAF guidelines.
- Review and evaluation of e-mailed surveys completed by management.
- Interviews with the Internal Audit Director, Internal Audit Department staff, the Executive Director, [number] senior managers, and [number] Board members, including the Chairman of the Board and the Vice-Chairman of the Board and Chairman of the Audit Committee.
- Review and evaluation of audit working papers.
- Review of Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

Detailed Results

The results of the quality assurance review for the [Agency Reviewed] Internal Audit Department are presented in the order of the *Standards for the Professional Practice of Internal Auditing.* No significant weaknesses were identified during the review that would prevent the Department from fulfilling its responsibilities. The detailed results include identification of best practices as well as some opportunities for improvement that the Internal Audit Department may wish to consider.

IIA Code of Ethics

Internal Audit demonstrates its commitment to the IIA *Code of Ethics* by including it in the *Internal Audit Policies and Procedures Manual,* attending periodic ethics training classes, and practicing ethical behavior in the course of daily work. In addition, the agency's *Ethics Policy* and fraud hotline are indications of an organization-wide commitment to accountability and integrity.

Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of Internal Audit have been defined in a charter that is consistent with auditing standards. The current charter was signed by the Board and the Executive Director in [Month, Year]. It defines the nature of audit and consulting services and grants the Internal Audit Department unrestricted access to agency records, property, and personnel.

Independence and Objectivity

The Internal Audit Department is independent both in terms of the agency's organizational structure and the Department's practices. The Internal Audit Director reports directly to the Board, which provides sufficient authority to promote independence and to ensure adequate consideration of audit reports and appropriate action on audit issues and recommendations. Removal of the Internal Audit Director requires Board approval.

The charter helps ensure continued independence by specifying that internal auditors must remain free of operational and management responsibilities that could impair their ability to make independent reviews of all areas of the agency's operations. None of the internal auditors has had prior responsibility for any areas that the Department audits. In addition, auditors are required to sign independence statements for each audit they perform.

Proficiency and Due Professional Care

The internal auditors individually and collectively possess the knowledge, skills, and abilities to perform their responsibilities. [Number] of the [number] auditors have at least one relevant professional certification. Internal auditors are required by the Department's policies and procedures to enhance their knowledge, skills, and abilities by obtaining at least 40 hours of continuing professional education each year. The Department has hired contractors to assist in areas for which its expertise or resources have not been sufficient to satisfy the audit objectives.

Quality Assurance and Improvement Program

The Internal Audit Director has implemented a quality assurance and improvement program to help ensure that Internal Audit adds value and improves the agency's operations and to provide assurance that the Department complies with *Standards* and the IIA Code of Ethics. The quality assurance program involves auditor performance evaluations, auditee surveys after each audit, annual customer surveys, and periodic peer reviews, which are communicated to the Board and

made available on the agency's Intranet. Each audit report indicates that the work was performed in accordance with *Standards.*

Opportunity for Improvement:
[*********]

Director's Response:
[**********]

Managing the Internal Audit Activity
The Internal Audit Director conducts an annual risk assessment that forms the basis for the Annual Audit Plan, which is approved by the Board. Each internal audit report addresses risk and control issues within the agency. The Director has developed policies and procedures to guide the internal audit activity. The Director reports the Department's performance relative to the annual plan in an annual report submitted to the agency's Executive Director and Audit Committee Chair, and in an Annual Report on Internal Audit submitted to the Governor's Office and the State Auditor.

Nature of Work
Internal Audit evaluates risks related to financial and operating information as well as the effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws and regulations. The Department also evaluates the extent to which operating and program objectives have been achieved.

To comply with the 2002 revision to the IIA *Standards* that requires Internal Audit to contribute to the organization's risk management and governance processes, the Department provides information and assistance to Executive Management and the Board about how the accomplishment of goals is monitored and how accountability is ensured.

Engagement Planning
During planning, internal auditors consider the objectives of the activity being reviewed and the related risks and controls. Resources needed for each audit are adequately considered during planning. Risk assessments are used to develop the objectives of each audit. Surveys and interviews conducted during this quality assurance review indicated that the objectives of audits are clearly communicated to the auditees. An Audit Plan and an Audit Program are documented and approved for each audit. The scope of audits is adequately planned and documented in planning documents and audit reports.

Opportunity for Improvement:
[*************]

Director's Response:
[**************]

Performing the Engagement
Internal auditors evaluate and document sufficient, reliable, and relevant information to achieve their audit objectives. Results and conclusions are based on analysis. Department policies and procedures contain guidance on sampling techniques.

Audits are properly supervised by the Internal Audit Director. The Auditor-in-Charge for each project monitors the progress of the individual audits. The Internal Audit Director attends planning meetings, approves all control documents, and reviews working papers to ensure sufficiency of evidence and compliance with *Standards.*

Communicating Results
Audit results are communicated in a timely manner. Potential findings are communicated throughout the audits, which provide management the opportunity to provide additional information and/or to start taking corrective action. Audit results are presented to management before they are finalized in a report, which helps ensure there is agreement about the areas for improvement and the recommended solutions.

Audit reports contain the audit objectives, results, conclusions, recommendations, and management's responses and action plans. The results of our surveys and interviews with management indicated that internal audit reports are accurate, objective, clear, concise, and complete. The Internal Audit Director distributes internal audit reports to the Board, to Executive Management, and to management of the activity being audited. In addition, internal audit reports are placed on the agency Intranet and hard copies are available.

Monitoring Progress
The agency has a system for monitoring the disposition of audit issues. The status of management's progress in implementing recommendations is reported semi-annually, and the results are made accessible to all levels of management. Additionally, the Department verifies recommendations that have been implemented and assesses their effectiveness during the survey phase of audits and as time permits during the year.

Resolution of Senior Management's Acceptance of Risks
During the quality assurance review, no instances were identified of management accepting an inappropriate level of risk that would require the Internal Audit Director to notify the Board.

Best Practices

Internal Audit is a progressive division that is dedicated to continuous improvement. During the quality assurance review, we observed a number of practices that demonstrate outstanding commitment and professionalism. These leading practices include the following:

- IA has relationships with executive and division management based on mutual respect and commitment to improving controls within the agency. The IA Director and staff work in concert with executive management on diverse audit assurance and consulting projects.

- The internal auditors are professional and proficient. They collectively hold six professional certifications and two graduate degrees. Certifications held include Certified Internal Auditor, Certified Public Accountant, Certified Information Systems Auditor, and Certified Fraud Examiner.

- All IA staff members obtain at least 80 hours of continuing professional education each two-year period provided by local professional auditing organizations including the State Auditor's Office (SAO) and local chapters of the Institute of Internal Auditors (IIA), the Information Systems Control and Audit Association (ISACA), the Association of Certified Fraud Examiners (ACFE), and the Association of Government Accountants (AGA). Agency managers and SAO managers stated in interviews that the internal auditors are competent professionals and are committed to public service.

- There is an excellent system for tracking and reporting the status of prior audit recommendations. The audit follow-up system includes periodic reviews and updates provided to line management and executive management.

- IA has developed the *Internal Audit Policies & Procedures Manual*, an excellent guide that provides direction to staff auditors and assures more consistent IA practices.

- IA staff members are active and well respected in local professional organizations including the SAIAF, IIA, ISACA, ACFE, and AGA. IA staff members have served and continue to serve in leadership positions in these professional groups.

- IA summarizes its audit engagement planning process in a comprehensive manner to include the identification of potential risks, testing methodology, preliminary interviews, and audit objectives and scope.

[Jane Smith], Chairman of the Board

[John Doe], Chairman of the Audit Committee

[Mary Jones], Executive Director

[Bob Roberts], Chief Audit Executive

Internal Audit Department of the
Texas Department of [Agency's Full Name]
receives a rating of

"Pass"

In compliance with the Institute of Internal Auditors' International Professional Practices Framework, Government Auditing Standards, and the Texas Internal Auditing Act.

This opinion is based on a quality assessment review conducted by members of the Texas State Agency Internal Audit Forum (SAIAF) during the period of [Month, Year]. The review was based on the methodology developed by the Texas State Agency Internal Audit Forum.

_____

[Name], MBA, CIA, CISA, CFE
Chief Audit Executive
[State Agency]

_____

Appendix I: Sample Agenda for Presentation to Board/Senior Management

Sample Agenda for
Presentation to Board/Executive Management

Standards –
The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102) require internal audit activities to receive external quality assurance reviews periodically. The most stringent standard requires them every 3 years.

SAIAF Guidelines –
This quality assurance review of the [Agency Reviewed] Internal Audit function was performed in accordance with State Agency Internal Audit Forum (SAIAF) guidelines. SAIAF is an organization whose membership consists of Texas state agency Internal Audit Directors/Chief Audit Executives. Peer Reviews are done on a reciprocal basis.

Review Team –
I am [name], the CAE/Director of Internal Audit for [Agency Name]. I served as the Team Leader for the Peer Review Team. [Name] from the [Agency Name] Internal Audit Department served as the Peer Review Team Member.

Review Time Period –
The quality assurance review was performed during [time period].
    It covered all completed audit and management assistance projects performed from [time period].

Methodology –
The work performed during the review included:
- Reviewing, verifying, and evaluating the self-assessment prepared by the Internal Audit Department according to SAIAF guidelines.
- Reviewing and evaluating [number] surveys completed by agency management.
- Conducting interviews with the Chief Audit Executive/Internal Audit Director, Internal Audit Department staff, the Executive Director, [number] senior managers, and [number] Board members, including ***the Chairman of the Board and the Chairman of the Audit Committee.***
- Reviewing and evaluating audit working papers.
- Reviewing Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

Areas of Focus –
The quality assurance review focused on compliance with standards, including areas such as:
- The Purpose, Authority, and Responsibility of Internal Audit
- Independence and Objectivity of the Audit Function and Individual Auditors
- Proficiency and Due Professional Care, including the knowledge, skills, and abilities of auditors and their training
- Quality Assurance and Improvement Program, including post-audit surveys, performance evaluations of auditors, participation in quality assurance reviews
- Managing the Internal Audit Activity

- The Nature of Work and the improvement of governance, risk management, and control processes
- Planning for Individual Audit Engagements
- The Quality of the Work Performed During Audit Engagements
- Communication of Audit Results
- Monitoring the Progress of Actions Management has Taken to address Audit Issues

Results of the Quality Assurance Review –
- It is the opinion of the Quality Assurance Team that the [Agency reviewed] Internal Audit Department receives a rating of ["pass"] and is in compliance with the Institute of Internal Auditors (IIA) *Standards for the Professional Practice of Internal Auditing*, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102).
- This opinion is the highest of three possible ratings.
- It means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

QUESTIONS?

SAIAF Peer Review Survey

Please rate the SAIAF Peer Review Process and the Peer Review Manual on the following attributes:

Evaluation Criteria		5	4	3	2	1	
		Outstanding	Very Good	Average	Needs Improvement	Poor	N/A
General Attributes of the Peer Review Manual							
1.	Accessibility						
2.	Usefulness						
3.	Content						
4.	Organization						
Attributes of Specific Sections of the Peer Review Manual							
5.	Sec. 1 – Overview of the SAIAF Peer Review Process						
6.	Sec. 2.1 – SAIAF Peer Review Process Ground Rules						
7.	Sec. 2.2 – Reciprocity Policies and Procedures						
8.	Sec. 2.3 – Self-assessment Policies and Procedures						
9.	Sec. 2.4– Dispute Resolution Policies and Procedures						
10.	Sec. 2.5 – Records Retention Policies and Procedures						
11.	Sec. 3 – Steps for Receiving a SAIAF Peer Review						
12.	Sec. 4 – Steps for Performing a SAIAF Peer Review						
13.	Sec. 5 – Master Peer Review Program						
14.	Sec. 6 – Working Paper Review Tool						
15.	Sec. 7 – Sample Index for Self-assessment Reference File						
16.	Sec. 8.1 – Contents of SAIAF Peer Review Engagement Letters						
17.	Sec. 8.2 – Sample Engagement Letter						
18.	Sec. 9 – Auditee Surveys						
19.	Sec. 10 – Interview Questionnaires						
20.	Sec. 11 – Sample Peer Review Report						

Evaluation Criteria	5	4	3	2	1	
General Attributes of the Peer Review Manual	Outstanding	Very Good	Average	Needs Improvement	Poor	N/A
21. Sec. 12 – Sample Agenda for Presentation to Board/Management						
General Attributes of the Peer Review Process						
22. Ease of obtaining a SAIAF Peer Review						
23. Time required to receive a SAIAF Peer Review						
24. Time required to perform a SAIAF Peer Review						
25. Quality of Peer Review Team performance						
Overall Rating						
26. Overall Rating for SAIAF Peer Review Manual and Process						

27. Was there anything about the Peer Review Manual or SAIAF process you especially liked?

   _____

26. Was there anything about the Peer Review Manual or SAIAF process you especially disliked?

   _____

29. How can the SAIAF Peer Review Process be improved?

   _____

Your Name (optional)_____

Your Agency _____

What role(s) did you perform in the peer review process:

___Performed review   ___Received review   ___Prepared self-assessment

Was your last Peer Review provided by _____ SAIAF?   _____ Contractor?

If provided by a contractor, why did you not choose to use SAIAF?

_____