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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

AGENDA

A REGULAR MEETING OF THE AUDIT, COMPLIANCE, RISK, AND ETHICS

(ACRE) COMMITTEE AND

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

9:00 A.M., WEDNESDAY, JUNE 24, 2026

This meeting will be conducted by the Audit, Compliance, Risk, and Ethics (ACRE) Committee and Board of Retirement and Board of Investments both in person and by teleconference under California Government Code Section 54953.8.3.

Any person may view the meeting in person at LACERA's offices or online at <https://LACERA.gov/leadership/board-meetings>

The Committee may take action on any item on the agenda, and agenda items may be taken out of order.

ACRE COMMITTEE TRUSTEES:

Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE COMMITTEE CONSULTANT

Larry Jensen

- I. CALL TO ORDER
- II. PLEDGE OF ALLEGIANCE

III. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER SB707

- A. Just Cause (Section 54953.8.3)
- B. Statement of Persons Present at SB707 Teleconference Locations

IV. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Meeting of March 18, 2026

V. PUBLIC COMMENT

(Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit <https://LACERA.gov/leadership/board-meetings> and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

If you select oral comment, we will contact you via email with information and instruction as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Committee. Oral comment requests will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email PublicComment@lacera.gov.)

VI. NON-CONSENT ITEMS

A. **Internal Audit External Quality Assessment**

Recommendation as submitted by Leisha E. Collins, Chief Audit Executive and Alex Ochoa, Internal Auditor: Staff recommends the ACRE Committee to:

- 1) Authorize the issuance of a Request for Proposal (RFP) for an External Quality Assessment (EQA) of the Internal Audit Division.
- 2) Designate one of its members to serve on the evaluation team for the selection of the consultant to perform the EQA.

(Presentation) (Memo dated May 29, 2026)

VI. NON-CONSENT ITEMS (Continued)

B. **Public Disclosure Forms Audit**

Recommendation as submitted by Delfino Aguilar, Senior Internal Auditor and Alex Ochoa, Internal Auditor: That the ACRE Committee review and discuss the following engagement report to take the following action(s).

1. Accept and file,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the audit findings, and/or
4. Provide further instruction to staff.
(Presentation) (Memo dated May 15, 2026)

C. **Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ended June 30, 2025**

Recommendation as submitted by Gabriel Tafoya, Senior Internal Auditor: That the ACRE Committee review and discuss the following engagement report to take the following action(s).

1. Accept and file,
3. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the audit findings, and/or
4. Provide further instruction to staff.
(Presentation) (Memo dated May 14, 2026)

D. **Strategic Asset Allocation Audit**

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Kristina Sun, Senior Internal Auditor: That the ACRE Committee review and discuss the following engagement report to take the following action(s).

VI. NON-CONSENT ITEMS (Continued)

1. Accept and file,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the audit findings, and/or
4. Provide further instruction to staff.
(Presentation) (Memo dated June 9, 2026)

E. **Business Continuity Program Advisory Engagement**

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Christian Velasco, Senior Internal Auditor: That the ACRE Committee review and discuss the following engagement and take the action(s) below.

1. Accept and file,
2. Instruct staff to forward memo to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the engagement, and/or
4. Provide further instruction to staff.
(Presentation) (Memo dated May 31, 2026)

F. **Fiscal Year 2025-2026 Internal Controls over Financial Reporting (ICFR) Readiness Assessment**

Recommendation as submitted by Christina Logan, Principal Internal Auditor and Kristina Sun, Senior Internal Auditor: That the ACRE Committee review and discuss the following engagement and take the action(s) below.

1. Accept and file,
2. Instruct staff to forward memo to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the engagement, and/or
4. Provide further instruction to staff.
(Presentation) (Memo dated June 9, 2026)

VII. REPORTS

- A. **Building the Fiscal Year (FY) 2027 Audit Plan: Our Risk Assessment and Audit Planning Process**
Leisha E. Collins, Chief Audit Executive
(Presentation) (Memo dated June 15, 2026)

- B. **Analysis of Human Resources' Employee Separation Data**
Christina Logan, Principal Internal Auditor
Christian Velasco, Senior Internal Auditor
(Presentation) (Memo dated April 30, 2026)

- C. **Audit Pool Contract Extension Update**
Christina Logan, Principal Internal Auditor
Alex Ochoa, Internal Auditor
(For Information Only) (Memo dated June 9, 2026)

- D. **Fiscal Year Ending 2026 Audit Plan Status Report**
Nathan K. Amick, Senior Internal Auditor
(For Information Only) (Presentation) (Memo dated June 18, 2026)

- E. **Recommendation Follow-Up Report**
Leisha E. Collins, Chief Audit Executive
Delfino Aguilar, Senior Internal Auditor
(For Information Only) (Memo dated June 17, 2026)

- F. **Recommendation Follow-Up for Sensitive Information Technology Areas**
Gabriel Tafoya, Senior Internal Auditor
(For Information Only) (Memo dated May 29, 2026)

- G. **Ethics Hotline Status Report**
Leisha E. Collins, Chief Audit Executive
(For Information Only) (Memo dated May 30, 2026)

- H. **Internal Audit Staffing Activity Report Update**
Leisha E. Collins, Chief Audit Executive
(Verbal Update)

VII. REPORTS (Continued)

I. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**

Leisha E. Collins, Chief Audit Executive
(Verbal Update)

VIII. CONSULTANT COMMENTS

Larry Jensen, ACRE Committee Consultant
(Verbal Presentation)

IX. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

X. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

XI. GOOD OF THE ORDER

(For Information Purposes Only)

XII. ADJOURNMENT

The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either the Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments. Members of the Board of Retirement and Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. Except as set forth in the Committee's Charter, the only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.

Any documents subject to public disclosure that relate to an agenda item for an open session of the Committee, that are distributed to members of the Committee less than 72 hours prior to the meeting, will be available for public inspection at the time they are distributed to a majority of the Committee, at LACERA's offices at 300 North Lake Avenue, Suite 820, Pasadena, California during normal business hours from 9:00 a.m. to 5:00 p.m. Monday through Friday and will also be posted on lacera.gov at the same time, [Board Meetings](#) | [LACERA](#).

Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000 from 8:00 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.gov, but no later than 48 hours prior to the time the meeting is to commence.

MINUTES OF THE REGULAR MEETING OF THE AUDIT, COMPLIANCE, RISK,
AND ETHICS (ACRE) COMMITTEE AND

BOARD OF RETIREMENT AND BOARD OF INVESTMENTS

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

9:00 A.M., WEDNESDAY, MARCH 18, 2026

This meeting was conducted by the Audit, Compliance, Risk, and Ethics (ACRE) Committee and Board of Retirement and Board of Investments both in person and by teleconference under California Government Code Section 54953.8.3.

Teleconference Locations for Trustees and the Public under California Government Code Section 54953.8.3.

(1) 211 West Temple Street Los Angeles CA 90012

(2) 113 N San Vicente Blvd Suite 391 Beverly Hills, CA 90211

COMMITTEE TRUSTEES:

PRESENT: Debbie Martin, Chair

Nicole Mi, Vice Chair

Aleen Langton, Secretary

Trevor Fay, (Teleconference under Section 54953(b))

Bobbie Fesler, (Teleconference Due to Just Cause under Section 54953.8.3.) (Joined meeting at 10:18 a.m.)

Shawn R. Kehoe, Teleconference under Section 54953(b)

Elizabeth Ginsberg, Ex-Officio

STAFF, ADVISORS AND PARTICIPANTS:

Luis A. Lugo, Chief Executive Officer

Laura Guglielmo, Assistant Executive Officer

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

Allison Barrett, Senior Staff Counsel

Carly Ntoya, Director of Human Resources

Leisha E. Collins, Chief Audit Executive

Christina Logan, Principal Internal Auditor

Delfino Aguilar, Senior Internal Auditor

Nathan K. Amick, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Christian Velasco, Senior Internal Auditor

Alex Ochoa, Internal Auditor

Larry Jensen, ACRE Committee Consultant

CliftonLarsonAllen, LLP

Christian Rogers, Engagement Principal

Brittany Smith, Engagement Manager

Brian Boguski, IT Director

I. CALL TO ORDER

This meeting was called to order by Chair Martin at 9:00 a.m. in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Mr. Jensen led the Trustees and staff in reciting the Pledge of Allegiance.

III. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER SB707

- A. Just Cause (Section 54953.8.3)
- B. Statement of Persons Present at SB707 Teleconference Locations

Trustee Fesler requested to participate in the meeting via teleconference for Just Cause, pursuant to Government Code Section 54953.8.3(c)(3) (SB 707). The reason for Just Cause was a need related to physical condition. A physical quorum was present at the noticed meeting location. Trustee Fesler confirmed that no individuals 18 years of age or older were present at the teleconference location.

IV. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Meeting of March 18, 2026

Trustee Ginsberg made a motion, Trustee Mi seconded, to approve the Minutes of the Regular meeting of March 18, 2026. The motion passed by the following roll call vote:

Yes: Fay, Ginsberg, Kehoe, Langton, Martin, Mi

Absent: Fesler

V. PUBLIC COMMENT

There were no requests from the public to speak.

VI. NON-CONSENT ITEMS

- A. **Salary Placement for Chief Internal Audit, LACERA**
Recommendation as submitted by Carly Ntoya, Ph.D., Director of Human Resources: That the Committee consider approval of the recommended salary placement for the Chief Internal Audit, LACERA at a starting base salary of \$16,606.76 per month (\$199,281.12 annually) or step 12 of the Chief Internal Audit, LACERA salary range. (Memo dated March 12, 2026)

VI. NON-CONSENT ITEMS (Continued)

Dr. Ntoya was present and answered questions from the Committee.

Trustee Ginsberg made a motion, Trustee Kehoe seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Fay, Ginsberg, Kehoe, Langton, Martin, Mi

Absent: Fesler

B. Fiscal Year 2025 – 2026 Audit Plan Amendment

Recommendation as submitted by Leisha E. Collins, Chief Audit Executive: That the Committee approve amendments to Internal Audit's Fiscal Year 2025-2026 Audit Plan.
(Memo dated March 10, 2026)

Mses. Collins, Sun and Mr. Jensen were present and answer questions from the Committee.

Trustee Ginsberg made a motion, Trustee Langton seconded, to approve staff's recommendations. The motion passed by the following roll call vote:

Yes: Fay, Ginsberg, Kehoe, Langton, Martin, Mi

Absent: Fesler

C. Audit Pool Contract Extensions

Recommendation as submitted by Nathan K. Amick, Senior Internal Auditor: That the Committee authorize Internal Audit to offer two-year contract extensions to Audit Pool professional service providers whose contracts expire between June and July 2026.
(Memo dated March 10, 2026)

Mr. Amick and Ms. Collins were present and answer questions from the Committee.

VI. NON-CONSENT ITEMS (Continued)

Trustee Ginsberg made a motion, Trustee Mi seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Fay, Ginsberg, Kehoe, Langton, Martin, Mi

Absent: Fesler

VII. REPORTS

A. **External Auditor Audit Plan and Governance Communications – Fiscal Year 2025 – 2026 Financial Statement Audit**

Kristina Sun, Senior Internal Auditor
(Presentation) (Memo dated March 9, 2026)

Messrs. Rogers, Boguski and Ms. Smith provided a presentation. Mses. Sun, Logan and Mr. Jensen were present to answer questions from the Committee. This item was received and filed.

B. **ACRE and Internal Audit Roles, Responsibilities, and Processes**

Leisha E. Collins, Chief Audit Executive
(Presentation) (Memo dated March 10, 2026)

(Trustee Fesler joined the meeting at 10:18 a.m.)

Ms. Collins provided a presentation and answered questions from the Committee. This item was received and filed.

C. **ACRE Oversight Duty & Ethics and Compliance Program Foundational Work Plan Status Report**

Steven P. Rice, Chief Counsel
Allison E. Barrett, Senior Staff Counsel
(Presentation) (Memo dated March 2, 2026)

Ms. Barrett provided a presentation and answered questions from the Committee. This item was received and filed.

VII. REPORTS (Continued)

D. **Fiscal Year Ending 2026 Audit Plan Status Report**

Nathan K. Amick, Senior Internal Auditor
(For Information Only) (Memo dated March 10, 2026)

This item was pulled for further discussion.

Mr. Amick and Ms. Collins were present and answered questions from the Committee. This item was received and filed.

E. **Recommendation Follow-Up Report**

Gabriel Tafoya, Senior Internal Auditor
(For Information Only) (Memo dated February 28, 2026)

This item was pulled for further discussion.

Messrs. Tafoya, Jensen, Lugo, and Ms. Collins were present and answered questions from the Committee. This item was received and filed.

F. **Recommendation Follow-Up for Sensitive Information Technology Areas**

Gabriel Tafoya, Senior Internal Auditor
(For Information Only) (Memo dated February 28, 2026)

This item was received and filed.

G. **Ethics Hotline Status Report**

Leisha E. Collins, Chief Audit Executive
(For Information Only) (Memo dated March 9, 2026)

This item was received and filed.

H. **Internal Audit Staffing Activity Report Update**

Leisha E. Collins, Chief Audit Executive
(Verbal Update)

This item was received and filed.

VII. REPORTS (Continued)

I. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**

Leisha E. Collins, Chief Audit Executive
(Verbal Update)

Ms. Collins was present and answered questions from the Committee.

VIII. CONSULTANT COMMENTS

Larry Jensen, ACRE Committee Consultant
(Verbal Presentation)

There was nothing to report.

IX. ITEMS FOR STAFF REVIEW

Trustee Langton requested that staff review the audit pool firms for any updates and obtain a brief status update from the external firms whose contracts were extended.

X. ITEMS FOR FUTURE AGENDAS

This item was received and filed.

XI. GOOD OF THE ORDER
(For Information Purposes Only)

This item was received and filed.

XII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 11:40 a.m.



May 29, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Leisha E. Collins 
Chief Audit Executive

Alex Ochoa 
Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Internal Audit External Quality Assessment**

RECOMMENDATION

Staff recommends the ACRE Committee to:

- 1) Authorize the issuance of a Request for Proposal (RFP) for an External Quality Assessment (EQA) of the Internal Audit Division.
- 2) Designate one of its members to serve on the evaluation team for the selection of the consultant to perform the EQA.

BACKGROUND

The Institute of Internal Auditors' (IIA) Global Internal Audit Standards (Standards) require the Chief Audit Executive (CAE) to develop, implement, and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit function. Under Standard 8.4(Attachment A), the QAIP must include an external quality assessment (EQA) conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

The EQA provides an independent evaluation of the Internal Audit Division's conformance with the Standards, including the quality, effectiveness, and positioning of the Internal Audit Division. The EQA also provides an opportunity to obtain benchmarking against peer practices, gather stakeholder feedback from the ACRE Committee, executive leadership, and key divisions. It is also used to develop a prioritized quality improvement plan with action owners and target dates for Committee oversight. The Internal Audit Division's last EQA was conducted in 2022 (Attachment B).

Although the Standards require an EQA at least once every five years, staff recommend initiating the next assessment in 2026, before the five-year mark. This timing aligns with best practices and is warranted by the new Standards effective as of January 2025, significant organizational changes at LACERA, and the recent transition to a new Chief Audit Executive (CAE). Conducting the assessment at this stage will provide timely, independent validation of conformance with Standards, identify any needed enhancements to policies, methodologies, and governance practices, and support alignment of the Internal Audit Division's structure and processes with current professional expectations.

PAST EXTERNAL QUALITY ASSESSMENTS

To maintain conformance with IIA Standards, the Internal Audit Division has completed External Quality Assessments (EQAs) since 2005. In every assessment, including the most recent one conducted in 2022 by IIA Quality Services, Internal Audit received an overall rating of *Generally Conforms*, the highest conclusion available under the prior framework.

Under the new Standards, the EQA framework has been updated to apply a revised and more differentiated rating methodology, including separate conclusions regarding conformance with the Standards. Accordingly, future assessments will be conducted and reported under the current framework, which is intended to provide a more comprehensive evaluation of both conformance and the overall effectiveness of the internal audit activity.

SCOPE AND OBJECTIVES

The scope of the EQA:

- Includes an evaluation of the Internal Audit Division's charter, organizational independence and objectivity, governance positioning, strategy, audit methodology, risk-based planning processes, staffing and competencies, quality assurance and improvement program, and the performance of internal audit services.
- Considers conformance with the Standards, and, where applicable, alignment with any relevant Topical Requirements.
- Includes an independent assessment of the Internal Audit Division's conformance and overall effectiveness,
- Evaluates the extent to which Internal Audit is positioned to create, protect, and sustain value for the organization, and identify opportunities to strengthen governance, processes, and continuous improvement.

Refer to Attachment C, Statement of Work, for a full description of the EQA engagement.

REQUEST FOR PROPOSAL PROCESS

In accordance with the Standards, the EQA must be conducted by a qualified and independent assessor or assessment team with demonstrated competence in both the professional practice of internal auditing and the external assessment process. The assessment team must be independent of LACERA and free from any real or perceived conflicts of interest.

An evaluation team composed of representatives from Internal Audit and the Executive Office will be established to review proposals and select a consultant to conduct the EQA. The selected consultant will be recommended to the Committee. For the 2022 EQA, a Committee member also served on the evaluation team. Accordingly, staff recommends a similar approach for this engagement by including either a Committee member or the Audit Consultant on the evaluation team.

Upon approval by the ACRE Committee, Internal Audit will issue a Request for Proposal to solicit qualified consultants to perform the EQA. Following completion of the procurement process, staff will return to the Committee with a recommended consultant for approval.

CONCLUSION

Staff recommends the Committee authorize the issuance of Request for Proposal for an External Quality Assessment of the Internal Audit Division and designate one of its members to serve on the evaluation team.

Attachments:

- A: IIA Global Internal Audit Standards
- B: 2022 External Quality Assessment Report
- C: Statement of Work
- D: Internal Audit Division External Quality Assessment (presentation)

Global Internal Audit Standards™

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Acknowledgements

The Institute of Internal Auditors is grateful to the stakeholders that provided guidance and assistance in the development of the Global Internal Audit Standards™. The IIA particularly recognizes members of the International Internal Audit Standards Board – a global group of internal auditors who have generously volunteered their time and expertise to ensure the Standards elevate the professional practice of internal auditing. The IIA thanks the International Professional Practices Framework Oversight Council for its essential role in ensuring the standard-setting process serves the public interest, the Professional Certifications Board for its advice, and IIA staff and technical advisors for ensuring the successful implementation and management of all aspects of the project.

About the International Professional Practices Framework

A framework provides a structural blueprint and coherent system that facilitates the consistent development, interpretation, and application of a body of knowledge useful to a discipline or profession. The International Professional Practices Framework (IPPF) organizes the authoritative body of knowledge, promulgated by The Institute of Internal Auditors, for the professional practice of internal auditing. The IPPF includes Global Internal Audit Standards, Topical Requirements, and Global Guidance.

The IPPF addresses current internal audit practices while enabling practitioners and stakeholders globally to be flexible and responsive to the ongoing needs for high-quality internal auditing in diverse environments and organizations of different purposes, sizes, and structures.

Mandatory	<p>Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.</p>
	<p>Topical Requirements are designed to enhance the consistency and quality of internal audit services related to specific audit subjects and to support internal auditors performing engagements in those risk areas. Internal auditors must conform with the relevant requirements when the scope of an engagement includes one of the identified topics.</p> <p>Topical Requirements strengthen the ongoing relevance of internal auditing in addressing the evolving risk landscape across industries and sectors.</p>

Supplemental

Global Guidance supports the Standards by providing nonmandatory information, advice, and best practices for performing internal audit services. It is endorsed by The IIA through formal review and approval processes.

Global Practice Guides provide detailed approaches, step-by-step processes, and examples on subjects including:

- Assurance and advisory services.
- Engagement planning, performance, and communication.
- Financial services.
- Fraud and other pervasive risks.
- Strategy and management of the internal audit function.
- Public sector.
- Sustainability.

Global Technology Audit Guides (GTAG[®]) provide auditors with the knowledge to perform assurance or consulting services related to an organization's information technology and information security risks and controls.

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Fundamentals of the Global Internal Audit Standards



The Institute of Internal Auditors' Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.

Internal Auditing and the Public Interest

Public interest encompasses the social and economic interests and overall well-being of a society and the organizations operating within that society (including those of employers, employees, investors, the business and financial community, clients, customers, regulators, and government). Questions of public interest are context specific and should weigh ethics, fairness, cultural norms and values, and potential disparate impacts on certain individuals and subgroups of society.

Internal auditing plays a critical role in enhancing an organization's ability to serve the public interest. While the primary function of internal auditing is to strengthen governance, risk management, and control processes, its effects extend beyond the organization. Internal auditing contributes to an organization's overall stability and sustainability by providing assurance on its operational efficiency, reliability of reporting, compliance with laws and/or regulations, safeguarding of assets, and ethical culture. This, in turn, fosters public trust and confidence in the organization and the broader systems of which it is a part.

The IIA is committed to setting standards with input from the public and to benefit the public. The International Internal Audit Standards Board is responsible for establishing and maintaining the Standards in the interest of the public. This is achieved through an extensive, ongoing due process overseen by an independent body, the IPPF Oversight Council. The process includes soliciting input from and considering the interests of various stakeholders—including internal audit practitioners, industry experts, government bodies, regulatory agencies, public representatives, and others—so that the Standards reflect the diverse needs and priorities of society.

Applicability and Elements of the Standards

The Global Internal Audit Standards set forth principles, requirements, considerations, and examples for the professional practice of internal auditing globally. The Standards apply to any individual or function that provides internal audit services, whether an organization employs internal auditors directly, contracts them through an external service provider, or both. Organizations receiving internal audit services vary in sector and industry affiliation, purpose, size, complexity, and structure.

The Standards apply to the internal audit function and individual internal auditors including the chief audit executive. While the chief audit executive is accountable for the internal audit function's implementation of and conformance with all principles and standards, all internal auditors are responsible for conforming with the principles and standards relevant to performing their job responsibilities, which are presented primarily in Domain II: Ethics and Professionalism and Domain V: Performing Internal Audit Services.

The Standards are organized into five domains:

- Domain I: Purpose of Internal Auditing.
- Domain II: Ethics and Professionalism.
- Domain III: Governing the Internal Audit Function.
- Domain IV: Managing the Internal Audit Function.
- Domain V: Performing Internal Audit Services.

Domains II through V contain the following elements:

- Principles: broad descriptions of a related group of requirements and considerations.
- Standards, which include:
 - Requirements: mandatory practices for internal auditing.
 - Considerations for Implementation: common and preferred practices to consider when implementing the requirements.
 - Examples of Evidence of Conformance: ways to demonstrate that the requirements of the Standards have been implemented.

The Standards use the word "must" in the Requirements sections and the words "should" and "may" to specify common and preferred practices in the Considerations for Implementation sections. Each standard ends with a list of examples of evidence. The examples are neither requirements nor the only ways to demonstrate conformance; rather, they are provided to help internal audit functions prepare for quality assessments, which rely on demonstrative evidence. The Standards use certain terms as defined in the accompanying glossary. To understand and implement the Standards correctly, it is necessary to understand and adopt the specific meanings and usage of the terms as described in the glossary.

Demonstrating Conformance with the Standards

The requirements, considerations for implementation, and examples of evidence of conformance are designed to help internal auditors conform with the Standards. While conformance with the requirements is expected, internal auditors occasionally may be unable to conform with a requirement yet still achieve the intent of the standard. Circumstances that may necessitate adjustments are often related to resource limitations or specific aspects of a sector, industry, and/or jurisdiction. In these exceptional circumstances, alternative actions should be implemented to meet the intent of the related standard. The chief audit executive is responsible for documenting and conveying the rationale for the deviation and the adopted alternative actions to the appropriate parties. Related requirements and information appear in Standard 4.1 Conformance with Global Internal Audit Standards and Domain III: Governing the Internal Audit Function together with its principles and standards. While the circumstances necessitating adjustments are too varied to list, the following section acknowledges two areas that consistently draw questions: small internal audit functions and those in the public sector.

Application in Small Internal Audit Functions

The internal audit function's ability to fully conform with the Standards may be affected by its size or the size of the organization. With limited resources, completing certain tasks may be challenging. Additionally, if the internal audit function comprises only one member, an adequate quality assurance and improvement program will require assistance from outside the internal audit function. (See also Standards 10.1 Financial Resource Management, 12.1 Internal Quality Assessment, and 12.3 Oversee and Improve Engagement Performance.)

Application in the Public Sector

While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organizational, and funding structures that may differ from those of the private sector. The nature of these structures and related conditions may be affected by the jurisdiction and level of government in which the internal audit function operates. Additionally, some terminology used in the public sector differs from that of the private sector. These differences may affect how internal audit functions in the public sector apply the Standards. The section "Applying the Global Internal Audit Standards in the Public Sector," which follows Domain V: Performing Internal Audit Services, describes strategies for conformance amid the circumstances and conditions unique to internal auditing in the public sector.

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Glossary

activity under review – The subject of an internal audit engagement. Examples include an area, entity, operation, function, process, or system.

advisory services – Services through which internal auditors provide advice to an organization’s stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. Examples include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. “Advisory services” are also known as “consulting services.”

assurance – Statement intended to increase the level of stakeholders’ confidence about an organization’s governance, risk management, and control processes over an issue, condition, subject matter, or activity under review when compared to established criteria.

assurance services – Services through which internal auditors perform objective assessments to provide assurance. Examples of assurance services include compliance, financial, operational/performance, and technology engagements. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.

board – Highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, “board” refers to the body/bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exist, “board” should be read as referring to the group or person that acts as the organization’s highest-level governing body. Examples include the head of the organization and senior management.

chief audit executive – The leadership role responsible for effectively managing all aspects of the internal audit function and ensuring the quality performance of internal audit services in accordance with Global Internal Audit Standards. The specific job title and/or responsibilities may vary across organizations.

competency – Knowledge, skills, and abilities.

compliance – Adherence to laws, regulations, contracts, policies, procedures, and other requirements.

conflict of interest – A situation, activity, or relationship that may influence, or appear to influence, an internal auditor’s ability to make objective professional judgments or perform responsibilities objectively.

control – Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.

control processes – The policies, procedures, and activities designed and operated to manage risks to be within the level of an organization’s risk tolerance.

criteria – In an engagement, specifications of the desired state of the activity under review (also called “evaluation criteria”).

engagement – A specific internal audit assignment or project that includes multiple tasks or activities designed to accomplish a specific set of related objectives. See also “assurance services” and “advisory services.”

engagement conclusion – Internal auditors’ professional judgment about engagement findings when viewed collectively. The engagement conclusion should indicate satisfactory or unsatisfactory performance.

engagement objectives – Statements that articulate the purpose of an engagement and describe the specific goals to be achieved.

engagement planning – Process during which internal auditors gather information, assess and prioritize risks relevant to the activity under review, establish engagement objectives and scope, identify evaluation criteria, and create a work program for an engagement.

engagement results – The findings and conclusion of an engagement. Engagement results may also include recommendations and/or agreed upon action plans.

engagement supervisor – An internal auditor responsible for supervising an internal audit engagement, which may include training and assisting internal auditors as well as reviewing and approving the engagement work program, workpapers, final communication, and performance. The chief audit executive may be the engagement supervisor or may delegate such responsibilities.

engagement work program – A document that identifies the tasks to be performed to achieve the engagement objectives, the methodology and tools necessary, and the internal auditors assigned to perform the tasks. The work program is based on information obtained during engagement planning.

external service provider – Resource from outside the organization that provides relevant knowledge, skills, experience, and/or tools to support internal audit services.

finding – In an engagement, the determination that a gap exists between the evaluation criteria and the condition of the activity under review. Other terms, such as “observations,” may be used.

fraud – Any intentional act characterized by deceit, concealment, dishonesty, misappropriation of assets or information, forgery, or violation of trust perpetrated by individuals or organizations to secure unjust or illegal personal or business advantage.

governance – The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

impact – The result or effect of an event. The event may have a positive or negative effect on the entity's strategy or business objectives.

independence – The freedom from conditions that may impair the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

inherent risk – The combination of internal and external risk factors that exists in the absence of any management actions.

integrity – Behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the professional courage to act based on relevant facts.

internal audit charter – A formal document that includes the internal audit function's mandate, organizational position, reporting relationships, scope of work, types of services, and other specifications.

internal audit function – A professional individual or group responsible for providing an organization with assurance and advisory services.

internal audit mandate – The internal audit function's authority, role, and responsibilities, which may be granted by the board and/or laws and regulations.

internal audit manual – The chief audit executive's documentation of the methodologies (policies, processes, and procedures) to guide and direct internal auditors within the internal audit function.

internal audit plan – A document, developed by the chief audit executive, that identifies the engagements and other internal audit services anticipated to be provided during a given period. The plan should be risk-based and dynamic, reflecting timely adjustments in response to changes affecting the organization.

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

likelihood – The possibility that a given event will occur.

may – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "may" describes optional practices to implement the Requirements.

methodologies – Policies, processes, and procedures established by the chief audit executive to guide the internal audit function and enhance its effectiveness.

must – The Global Internal Audit Standards use the word "must" to specify an unconditional requirement.

objectivity – An unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise.

outsourcing – Contracting with an independent external provider of internal audit services. Fully outsourcing a function refers to contracting the entire internal audit function, and partially outsourcing (also called "cosourcing") indicates that only a portion of the services are outsourced.

periodically – At regularly occurring intervals, depending on the needs of the organization, including the internal audit function.

professional skepticism – Questioning and critically assessing the reliability of information.

public sector – Governments and all publicly controlled or publicly funded agencies, enterprises, and other entities that deliver programs, goods, or services to the public.

quality assurance and improvement program – A program established by the chief audit executive to evaluate and ensure the internal audit function conforms with the Global Internal Audit Standards, achieves performance objectives, and pursues continuous improvement. The program includes internal and external assessments.

residual risk – The portion of inherent risk that remains after management actions are implemented.

results of internal audit services – Outcomes, such as engagement conclusions, themes (such as effective practices or root causes), and conclusions at the level of the business unit or organization.

risk – The positive or negative effect of uncertainty on objectives.

risk and control matrix – A tool that facilitates the performance of internal auditing. It typically links business objectives, risks, control processes, and key information to support the internal audit process.

risk appetite – The types and amount of risk that an organization is willing to accept in the pursuit of its strategies and objectives.

risk assessment – The identification and analysis of risks relevant to the achievement of an organization's objectives. The significance of risks is typically assessed in terms of impact and likelihood.

risk management – A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

risk tolerance – Acceptable variations in performance related to achieving objectives.

root cause – Core issue or underlying reason for the difference between the criteria and the condition of an activity under review.

senior management – The highest level of executive management of an organization that is ultimately accountable to the board for executing the organization's strategic decisions, typically a group of persons that includes the chief executive officer or head of the organization.

should – As used in the Considerations for Implementation of the Global Internal Audit Standards, the word "should" describes practices that are preferred but not required.

significance – The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

stakeholder – A party with a direct or indirect interest in an organization’s activities and outcomes. Stakeholders may include the board, management, employees, customers, vendors, shareholders, regulatory agencies, financial institutions, external auditors, the public, and others.

workpapers – Documentation of the internal audit work done when planning and performing engagements. The documentation provides the supporting information for engagement findings and conclusions.

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Domain I: Purpose of Internal Auditing



The purpose statement is intended to assist internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

Purpose Statement

Internal auditing strengthens the organization's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organization's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

Domain II: Ethics and Professionalism



The principles and standards in the Ethics and Professionalism domain of the Global Internal Audit Standards replace The IIA's former Code of Ethics and outline the behavioral expectations for professional internal auditors; including chief audit executives, other individuals, and any entities that provide internal audit services. Conformance with these principles and standards instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors' work and judgment.

All internal auditors are required to conform with the standards of ethics and professionalism. If internal auditors are expected to abide by other codes of ethics, behavior, or conduct, such as those of an organization, conformance with the principles and standards of ethics and professionalism contained herein is still expected. The fact that a particular behavior is not mentioned in these principles and standards does not preclude it from being considered unacceptable or discreditable.

While internal auditors are responsible for their own conformance, the chief audit executive is expected to support and promote conformance with the principles and standards in the Ethics and Professionalism domain by providing opportunities for training and guidance. The chief audit executive may choose to delegate certain responsibilities for managing conformance but retains accountability for the ethics and professionalism of the internal audit function.

Principle 1 Demonstrate Integrity

Internal auditors demonstrate integrity in their work and behavior.

Integrity is behavior characterized by adherence to moral and ethical principles, including demonstrating honesty and the courage to act based on relevant facts, even when facing pressure to do otherwise, or when doing so might create potential adverse personal or organizational consequences. In simple terms, internal auditors are expected to tell the truth and do the right thing, even when it is uncomfortable or difficult.

Integrity is the foundation of the other principles of ethics and professionalism, including objectivity, competency, due professional care, and confidentiality. The integrity of internal auditors is essential to establishing trust and earning respect.

Standard 1.1 Honesty and Professional Courage

Requirements

Internal auditors must perform their work with honesty and professional courage.

Internal auditors must be truthful, accurate, clear, open, and respectful in all professional relationships and communications, even when expressing skepticism or offering an opposing viewpoint. Internal auditors must not make false, misleading, or deceptive statements, nor conceal or omit findings or other pertinent information from communications. Internal auditors must disclose all material facts known to them that, if not disclosed, could affect the organization's ability to make well-informed decisions.

Internal auditors must exhibit professional courage by communicating truthfully and taking appropriate action, even when confronted by dilemmas and difficult situations.

The chief audit executive must maintain a work environment where internal auditors feel supported when expressing legitimate, evidence-based engagement results, whether favorable or unfavorable.

Considerations for Implementation

Internal auditors should enhance their awareness and understanding of honesty and professional courage by seeking opportunities to obtain ethics-related continuing professional education. While education helps create awareness in hypothetical situations, workplace training, mentorship, and supervision allow internal auditors to learn and practice skills such as tact and respectful communication, which are needed to apply professional courage effectively in real situations. When internal auditors encounter situations that challenge their honesty or professional courage, they should discuss the circumstances with a supervisor to determine the best course of action.

To support internal auditors, the chief audit executive should arrange opportunities for education and training as well as discussions of hypothetical and real situations that require making ethical choices. Effective management of the internal audit function includes proper engagement supervision and periodic reviews of internal auditors' performance. For example, when approving work programs or reviewing engagement workpapers, an engagement supervisor may provide appropriate guidance to help internal auditors address potential or encountered situations that could pose a threat to their honesty and integrity. As part of evaluating internal auditors' performance, the chief audit executive may solicit feedback about their honesty and professional courage from the stakeholders with whom internal auditors interact.

Examples of Evidence of Conformance

- A training plan that includes ethics education and training.
- Documents that evidence internal auditors' attendance or participation in ethics education and training.
- Performance evaluations showing honesty and professional courage as objectives.
- Feedback from key stakeholders regarding the honesty and courage of internal auditors.

Standard 1.2 Organization's Ethical Expectations

Requirements

Internal auditors must understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and must be able to recognize conduct that is contrary to those expectations.

Internal auditors must encourage and promote an ethics-based culture in the organization. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they must report the concern according to applicable policies and procedures.

Considerations for Implementation

An organization's ethical expectations usually are documented in a code of ethics, code of conduct, and/or policies related to professional behavior and ethical conduct. Such policies, along with the organization's objectives and processes for promoting its ethics and values, provide the basis for an ethical culture.

The internal audit plan may include assessments of the organization's ethics-related risks to determine whether existing policies and control processes adequately and effectively address those risks. For example, the organization's policies may specify the criteria and process for handling and communicating about ethics-related issues, the parties that should receive the communication, and the protocol for escalating unresolved issues. The chief audit executive also should determine a methodology for addressing ethical issues and discuss the methodology with the board and senior management to ensure alignment of the approaches.

Internal auditors should consider ethics-related risks and controls during individual engagements. If internal auditors identify behavior within the organization that is inconsistent with the organization's ethical expectations, they should communicate the concerns according to the methodology established by the chief audit executive, which takes into account the organization's policies and processes as well as laws and/or regulations.

If internal auditors determine that a member of senior management has behaved in a manner that is inconsistent with the organization's ethical expectations – whether documented in a code of conduct, code of ethics, or otherwise – the chief audit executive should report the violation to the board. If an ethics-related concern involves the chairman of the board, the chief audit executive should report the concern to the entire board. Internal auditors should follow up on ethics-related issues involving the board or senior management and validate that appropriate actions were taken to address the concern.

Examples of Evidence of Conformance

- Records of internal auditors' participation in workshops, training events, or meetings where ethical expectations and issues were discussed.
- Forms signed by individual internal auditors acknowledging their understanding of and commitment to follow ethics policies and procedures of the organization.

- The internal audit plan, work program, or workpapers showing consideration of the organization's ethics-related objectives, risks, and control processes.
- Documentation demonstrating that ethical issues were communicated to the board, senior management, and regulators in accordance with the organization's policies and relevant laws and/or regulations.

Standard 1.3 Legal and Ethical Behavior

Requirements

Internal auditors must not engage in or be a party to any activity that is illegal or discreditable to the organization or the profession of internal auditing or that may harm the organization or its employees.

Internal auditors must understand and abide by the laws and/or regulations relevant to the industry and jurisdictions in which the organization operates, including making disclosures as required.

If internal auditors identify legal or regulatory violations, they must report such incidents to individuals or entities that have the authority to take appropriate action, as specified in laws, regulations, and applicable policies and procedures.

Considerations for Implementation

If organizational policies are not sufficiently specific to address the situations that the internal audit function encounters, then the chief audit executive may develop and implement a methodology that specifies the actions internal auditors are expected to take in response to legal or regulatory violations of which they become aware. The methodology may include a procedure for validating that adequate actions are taken to address the violation.

The chief audit executive should establish a methodology to ensure that internal auditors are properly supervised, conform with the Global Internal Audit Standards, and behave in alignment with ethical and professional values.

Examples of discreditable behaviors include but are not limited to:

- Bullying, harassment, or discrimination.
- Lying, deceiving, or intentionally misleading others, including misrepresenting one's competency or qualifications (such as claiming to hold a certification or displaying credentials when the designation is expired or inactive, has been revoked, or was never earned).
- Intentionally issuing false reports or communications or allowing or encouraging others to do so, including minimizing, concealing, or omitting internal audit findings, conclusions, or ratings from engagement reports or overall assessments.
- Overlooking illegal activities that the organization may tolerate or condone.
- Soliciting or disclosing confidential information without proper authorization.
- Performing internal audit services with undeclared impairments to objectivity or independence.

- Stating that the internal audit function is operating in conformance with the Global Internal Audit Standards when the assertion is not supported.
- Failing to accept responsibility for mistakes.

Examples of Evidence of Conformance

- Records of internal auditors' participation in training on laws, regulations, and ethical and professional behavior.
- Internal auditors' acknowledgments of their understanding of and commitment to act in accordance with relevant legal and professional expectations.
- Documented methodologies for handling illegal or discreditable behavior by internal auditors and legal or regulatory violations by individuals within the organization.
- Documented communication between internal auditors and their supervisors and/or legal counsel that address concerns about illegal or unprofessional actions.
- Sign-off that workpapers were reviewed.
- Final engagement communication, if applicable.

Principle 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments, fulfill their responsibilities, and achieve the Purpose of Internal Auditing without compromise. An independently positioned internal audit function supports internal auditors' ability to maintain objectivity.

Standard 2.1 Individual Objectivity

Requirements

Internal auditors must maintain professional objectivity when performing all aspects of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances.

Internal auditors must be aware of and manage potential biases.

Considerations for Implementation

Objectivity means internal auditors perform their work without compromise or subordination of judgment to others. The Global Internal Audit Standards, along with the policies established and training arranged by the chief audit executive, support objectivity by providing requirements, procedures, and guidance that set forth a systematic and disciplined approach for gathering and evaluating information to provide a balanced assessment of the activity under review. Training may help internal auditors to better understand objectivity-impairing scenarios and how best to address them.

Making objective assessments requires an impartial mindset, free from bias and undue influence, which is essential to providing objective assurance and advice to the board and senior management. Internal auditors should develop awareness of the ways in which situations, activities, and relationships may affect their ability to be objective.

Internal auditors should consider the human tendency to misinterpret information or make assumptions or mistakes, which impairs the ability to evaluate information and evidence objectively.

Examples of biases include but are not limited to:

- Self-review bias – lack of critical perspective when reviewing one's own work, which may lead to overlooking mistakes or shortcomings.
- Familiarity bias – making assumptions based on past experiences, which may compromise professional skepticism.
- Prejudice or unconscious bias – misinterpretation of information, based on predisposed ideas about culture, ethnicity, gender, ideology, race, or other characteristics, which may cause inaccurate judgments.

Examples of Evidence of Conformance

- References in the internal audit charter to internal auditors' responsibility for maintaining objectivity.
- Policies and procedures related to objectivity.
- Records of planned and completed objectivity training, including list of participants.
- Attestation forms that confirm internal auditors' awareness of objectivity's importance and the obligation to disclose any potential impairments.
- Documented disclosures of potential conflicts of interest or other impairments to objectivity.
- Notes from supervisory reviews and mentoring of internal auditors.

Standard 2.2 Safeguarding Objectivity

Requirements

Internal auditors must recognize and avoid or mitigate actual, potential, and perceived impairments to objectivity.

Internal auditors must not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.

Internal auditors must avoid conflicts of interest and must not be unduly influenced by their own interests or the interests of others, including senior management or others in a position of authority, or by the political environment or other aspects of their surroundings.

When performing internal audit services:

- Internal auditors must refrain from assessing specific activities for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous 12 months.
- If the internal audit function is to provide assurance services where it had previously performed advisory services, the chief audit executive must confirm that the nature of the advisory services does not impair objectivity and must assign resources such that individual objectivity is managed. Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by an independent party outside the internal audit function.
- If internal auditors are to provide advisory services relating to activities for which they had previous responsibilities, they must disclose potential impairments to the party requesting the services before accepting the engagement.

The chief audit executive must establish methodologies to address impairments to objectivity. Internal auditors must discuss impairments and take appropriate actions according to relevant methodologies.

Considerations for Implementation

Objectivity is impaired when situations, activities, or relationships may influence internal auditors' judgments and decisions in a way that may change internal audit findings and conclusions. Impairments to objectivity may exist, in fact or appearance, even when they are unintended. Objectivity may be perceived by others to be impaired, even when no impairment has occurred in fact. Internal auditors should apply judgment regarding additional circumstances that may impair or be presumed to impair objectivity.

Conflicts of interest are situations in which an internal auditor has a competing professional or personal interest that may make it difficult to fulfill internal audit duties impartially. Conflicts of interest may create the appearance of impropriety that could undermine the confidence in an internal auditor, the internal

audit function, and the internal audit profession, even if no unethical or improper acts result.

Examples of conflicts of interest include situations, activities, and relationships that may, in fact or appearance:

- Oppose or compete with the interests of the organization.
- Create the potential for undue financial or other personal gain.
- Be established solely to protect oneself from potential or actual loss or harm.
- Be nepotistic or provide favoritism to certain individuals.

The internal audit function's methodologies should specify the expectations and requirements for internal auditors related to:

- Receiving gifts, favors, and rewards.
- Identifying situations that may impair objectivity.
- Responding appropriately upon becoming aware of an impairment.

Many organizations have a policy related to the acceptance of gifts, rewards, and favors, such as a policy limiting the value of gifts that can be accepted. Because of the importance of objectivity in the practice of internal auditing, the chief audit executive may have a policy that is more restrictive than that of the organization. Internal auditors should follow the more restrictive policy and carefully consider whether accepting a gift, reward, or favor may be perceived to affect their judgment or be given in exchange for producing favorable internal audit findings, conclusions, or results.

The policies of the organization and/or the internal audit function may prohibit specific activities or relationships that could create conflicts of interest. Internal auditors should be aware that close personal relationships outside work and relationships involving financial ties, such as investments, may be or appear to be conflicts of interest.

The chief audit executive should take precautions to reduce the potential impairments to objectivity that may result from the design of performance evaluations and remuneration arrangements, bonuses, and incentives. Examples of remuneration arrangements that may impair objectivity include:

- Basing performance evaluations and remuneration primarily on surveys of or input from the management of the activity under review.
- Measuring performance against the number of findings identified during engagements, the revenue growth of the activity under review, or the cost savings or job eliminations imposed upon the activity under review.
- Allowing management to provide indirect compensation in the form of gifts and gratuities.

Internal auditors should apply their understanding of objectivity and relevant policies and procedures to evaluate whether any situations, activities, or relationships may impair, or may be presumed to impair, their objectivity. The perceptions of other people should be considered.

The requirements for staffing and supervising engagements are intended to ensure that the internal auditors assigned to an engagement were not recently responsible for any aspect of the activity under review, which may bias their view, give them a vested interest in a particular outcome, or create the perception or appearance that their objectivity is impaired. For each engagement, the internal auditors performing and supervising the engagement should be independent from the activity under review.

When planning resources for an engagement, the chief audit executive or a designated supervisor should discuss the engagement with internal auditors to identify any current or potential impairments to objectivity.

The discussion should include consideration of any impairments previously disclosed.

As part of the process for supervising engagements, workpapers are reviewed to ensure findings and conclusions are adequately supported. Engagement supervision also provides opportunities for more experienced internal auditors to provide feedback and mentoring regarding potential objectivity concerns. (See also Standards 12.3 Oversee and Improve Engagement Performance and 13.5 Engagement Resources.) If an impairment is unavoidable, it should be disclosed and mitigated as described in Standard 2.3 Disclosing Impairments to Objectivity.

Examples of Evidence of Conformance

- Policies and procedures for identifying potential impairments and necessary safeguards.
- Records of objectivity training.
- Documentation through which internal auditors attest that they either have no known impairments or have disclosed potential impairments.
- Sources of feedback on the perception of internal auditors' objectivity, such as surveys of the internal audit function's stakeholders.
- Notes from supervisory reviews.
- Remuneration plan.
- Minutes of board meetings where impairments to objectivity were discussed.
- Plans showing alternative provisions to fulfill the internal audit plan activities where impairments to objectivity were unavoidable.
- Results of external quality assessments performed by an independent assessor.

Standard 2.3 Disclosing Impairments to Objectivity

Requirements

If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties.

If internal auditors become aware of an impairment that may affect their objectivity, they must disclose the impairment to the chief audit executive or a designated supervisor. If the chief audit executive determines that an impairment is affecting an internal auditor's ability to perform duties objectively, the chief audit executive must discuss the impairment with the management of the activity under review, the board, and/or senior management and determine the appropriate actions to resolve the situation.

If an impairment that affects the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions is discovered after an engagement has been completed, the chief audit executive must discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Standard 11.4 Errors and Omissions.)

If the objectivity of the chief audit executive is impaired in fact or appearance, the chief audit executive must disclose the impairment to the board. (See also Standard 7.1 Organizational Independence.)

Considerations for Implementation

The requirements for disclosing impairments to objectivity are typically defined in the internal audit function's methodologies and describe the actions to be taken to address each impairment to objectivity. The general approach to disclosing and mitigating impairments to objectivity is typically determined by the chief audit executive in agreement with the board and senior management.

If an impairment to objectivity cannot be avoided, the chief audit executive may consider options to manage the impairment, including:

- Reassigning internal auditors to remove the impaired internal auditor from the engagement.
- Rescheduling an engagement to ensure it is properly staffed.
- Adjusting the scope of an engagement.
- Outsourcing the performance or supervision of the engagement.

When a concern arises during engagement planning that relates solely to the perception of an impairment, the chief audit executive may choose to discuss the concern with the management of the activity under review and/or senior management, explain why the risk exposure is minimal and how it will be managed, and document the discussion and the final decision about how to proceed.

Standard 7.1 Organizational Independence provides additional requirements and information related to the chief audit executive assuming roles or responsibilities beyond internal auditing.

Examples of Evidence of Conformance

- Internal audit methodologies for disclosing objectivity impairments.
- Documentation disclosing the presence or affirming the absence of objectivity impairments.
- Records of the disclosure of objectivity impairments and the response from and/or approval of the mitigation by appropriate parties.

Principle 3 Demonstrate Competency

Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

Demonstrating competency requires developing and applying the knowledge, skills, and abilities to provide internal audit services. Because internal auditors provide a diverse array of services, the competencies needed by each internal auditor vary. In addition to possessing or obtaining the competencies needed to perform services, internal auditors improve the effectiveness and quality of services by pursuing professional development.

Standard 3.1 Competency

Requirements

Internal auditors must possess or obtain the competencies to perform their responsibilities successfully. The required competencies include the knowledge, skills, and abilities suitable for one's job position and responsibilities commensurate with their level of experience. Internal auditors must possess or develop knowledge of The IIA's Global Internal Audit Standards.

Internal auditors must engage only in those services for which they have or can attain the necessary competencies.

Each internal auditor is responsible for continually developing and applying the competencies necessary to fulfill their professional responsibilities. Additionally, the chief audit executive must ensure that the internal audit function collectively possesses the competencies to perform the internal audit services described in the internal audit charter or must obtain the necessary competencies. (See also Standards 7.2 Chief Audit Executive Qualifications and 10.2 Human Resources Management.)

Considerations for Implementation

Internal auditors should develop competencies related to:

- Communication and collaboration.
- Governance, risk management, and control processes.
- Business functions, such as financial management and information technology.
- Pervasive risks, such as fraud.
- Tools and techniques for gathering, analyzing, and evaluating data.
- The risks and potential impacts of various economic, environmental, legal, political, and social conditions.
- Laws, regulations, and practices relevant to the organization, sector, and industry.
- Trends and emerging issues relevant to the organization and internal auditing.
- Supervision and leadership.

To develop and demonstrate competencies, internal auditors may:

- Obtain appropriate professional credentials, such as the Certified Internal Auditor® designation and other certifications and credentials.
- Identify opportunities for improvement and competencies that need development, based on feedback provided by stakeholders, peers, and supervisors.
- Seek relevant training not only in internal audit methodologies but also on business activities relevant to the organization. Training opportunities may include enrolling in courses, working with a mentor, or being assigned new tasks under supervision during an engagement.

While internal auditors are responsible for ensuring their individual professional development and may assess their own skills and opportunities for development, the chief audit executive should support the professional development of internal auditors. The chief audit executive may establish minimum

expectations for professional development and should encourage the pursuit of professional qualifications. The chief audit executive should include funding for training and professional development in the internal audit budget and provide opportunities internally as well as externally, through continuing professional education, training, and conferences. (See also Standards 10.1 Financial Resource Management and 10.2 Human Resources Management.)

To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the chief audit executive should:

- Maintain knowledge of internal auditors' competencies to be used when assigning work, identifying training needs, and recruiting internal auditors to fill open positions.
- Participate in the performance reviews of individual internal auditors.
- Identify areas in which the competencies of the internal audit function should be improved.
- Encourage internal auditors' intellectual curiosity and invest in training and other opportunities to improve internal audit performance.
- Understand the competencies of other providers of assurance and advisory services and consider relying upon those providers as a source of additional or specialty competencies not available within the internal audit function.
- Consider contracting with an independent, external service provider when the internal audit function collectively does not possess the competencies to perform requested services.
- Effectively implement a quality assurance and improvement program.

Examples of Evidence of Conformance

- Documentation listing the certifications, education, experience, work history, and other qualifications of internal auditors.
- Internal auditors' self-assessments of their competencies and plans for professional development.
- Documentation of internal auditors' completion of continuing professional education, such as courses, conference sessions, workshops, and seminars.
- Documented performance reviews of internal auditors.
- Documented supervisory reviews of engagements, post-engagement surveys completed by internal audit stakeholders, and other forms of feedback indicating competencies exhibited by individual internal auditors and the internal audit function.
- The results of internal and external quality assessments.
- Documentation of relevant competencies necessary to fulfill the internal audit plan, an analysis of resource gaps, and the identification of the training and budget necessary to fill the gaps.
- Documentation such as an assurance map that indicates the competencies of other providers of assurance and advisory services upon which the internal audit function may rely.

Standard 3.2 Continuing Professional Development

Requirements

Internal auditors must maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services. Internal auditors must pursue continuing professional development including education and training. Practicing internal auditors who have attained professional internal audit certifications must follow the continuing professional education policies and fulfill the requirements applicable to their certifications.

Considerations for Implementation

Continuing professional development may include self-study, on-the-job training, opportunities to learn new skills on special assignments (such as rotational programs), mentorship, supervisory feedback, and free and paid education. To improve the quality of performing internal audit services, internal auditors should seek opportunities to learn about trends and best practices as well as emerging topics, risks, trends, and changes that may affect the organizations for which they work and the internal audit profession.

Internal auditors are responsible for developing their competencies and should seek opportunities to learn. However, the chief audit executive is responsible for the competencies of the internal audit function and should budget and plan for opportunities to train and educate internal audit staff. For example, internal auditors can develop new knowledge when properly supervised and assigned to engagements involving processes or areas with which they have had limited experience. Internal auditors should seek and welcome opportunities for supervision and mentorship through which they can receive robust feedback, guidance, and insight.

Many professional credentials require a minimum number of hours of continuing professional education within specific periods, such as annually. The chief audit executive should consider implementing a plan that requires internal auditors to obtain specific types and quantities of continuing professional education.

Internal auditors possessing credentials, such as the Certified Internal Auditor® designation, should be aware of the specific requirements of the certifying body's policy for maintaining their credentials. Failing to fulfill such requirements may result in consequences, including jeopardizing internal auditors' permission to use the credentials. All internal auditors should develop a plan and schedule for ongoing training and education. As part of the required continuing professional education, The IIA requires holders of its certifications to complete ethics training. While this requirement is linked specifically to IIA certifications, all internal audit professionals should obtain ethics-focused continuing professional education or training regularly.

News service subscriptions, webinars, and professional events provide internal auditors with opportunities to stay abreast of current developments in the internal audit profession and industries relevant to the organizations for which they work. Training may be used to introduce new technology or changes in internal audit practices.

Professional development initiatives should include a regular review and assessment of internal auditors' career paths and needs for professional development. The chief audit executive should ensure plans and budgets for training reflect a balance between investing in developing the competencies of the internal audit function as a whole and providing internal auditors with opportunities to achieve their individual goals to grow professionally.

Examples of Evidence of Conformance

- Documented plans for attending training events, professional conferences, and other continuing professional education.
- Records of internal auditors' completed continuing professional education and credentials obtained.
- Internal auditors' performance reviews and/or plans for professional development.
- Evidence of active involvement in The IIA and other relevant professional organizations, such as volunteer service.

Principle 4 Exercise Due Professional Care

Internal auditors apply due professional care in planning and performing internal audit services.

The standards that embody exercising due professional care require:

- Conformance with the Global Internal Audit Standards.
- Consideration of the nature, circumstances, and requirements of the work to be performed.
- Application of professional skepticism to critically assess and evaluate information.

Due professional care requires planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are not expected to be infallible.

Standard 4.1 Conformance with the Global Internal Audit Standards

Requirements

Internal auditors must plan and perform internal audit services in accordance with the Global Internal Audit Standards.

The internal audit function's methodologies must be established, documented, and maintained in alignment with the Standards. Internal auditors must follow the Standards and the internal audit function's methodologies when planning and performing internal audit services and communicating results.

If the Standards are used in conjunction with requirements issued by other authoritative bodies, internal audit communications must also cite the use of the other requirements, as appropriate.

If laws or regulations prohibit internal auditors or the internal audit function from conforming with any part of the Standards, conformance with all other parts of the Standards is required and appropriate disclosures must be made.

When internal auditors are unable to conform with a requirement, the chief audit executive must document and communicate a description of the circumstance, alternative actions taken, the impact of the actions, and the rationale. Requirements related to disclosing nonconformance with the Standards are described in Standards 8.3 Quality, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.

Considerations for Implementation

The chief audit executive should review the Standards when changes occur and align the internal audit function's methodologies accordingly. If inconsistencies exist between the Standards and requirements issued by other authoritative bodies, internal auditors and the internal audit function may be required to or may choose to conform with the more stringent requirements.

The chief audit executive or a designated engagement supervisor should ensure that engagement work programs align with the requirements of the Standards and that internal audit engagements are conducted in accordance with the Standards' requirements.

While conformance with the requirements is expected, internal auditors or the internal audit function may occasionally be unable to conform with a requirement yet may take alternative actions to achieve the related principle. Such circumstances are usually related to specific sectors, industries, and jurisdictions. By documenting the circumstance, alternative actions taken, the impact, and the rationale, the chief audit executive provides information to support the external quality assessment such that the internal audit function may be able to achieve conformance with a principle, even when conformance with a standard is not possible.

If internal auditors are unable to conform with a standard when performing an internal audit engagement, they should discuss with the chief audit executive or a designated supervisor the reason for the nonconformance and the effect of the nonconformance on the engagement. The chief audit executive or supervisor should provide guidance regarding to whom and how to communicate the nonconformance. (See Standard 15.1 Final Engagement Communication.)

Additionally, laws, regulations, internal audit methodologies, and organizational policies may provide specifications for determining when and how nonconformance is to be disclosed.

Examples of Evidence of Conformance

- Documentation of the internal audit function's methodologies and an indication of when they were last updated.
- If applicable, final engagement communications and communications with the board and senior management where nonconformance has been disclosed.

- Documentation referencing the laws and/or regulations with which internal auditors were required to comply that prevented their conformance with the Standards.
- Documentation referencing authoritative requirements to which the internal audit function adheres in addition to the Standards.
- Results of the quality assurance and improvement program.

Standard 4.2 Due Professional Care

Requirements

Internal auditors must exercise due professional care by assessing the nature, circumstances, and requirements of the services to be provided, including:

- The organization's strategy and objectives.
- The interests of those for whom internal audit services are provided and the interests of other stakeholders.
- Adequacy and effectiveness of governance, risk management, and control processes.
- Cost relative to potential benefits of the internal audit services to be performed.
- Extent and timeliness of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of risks to the activity under review.
- Probability of significant errors, fraud, noncompliance, and other risks that might affect objectives, operations, or resources.
- Use of appropriate techniques, tools, and technology.

Considerations for Implementation

To perform services with due professional care requires that internal auditors consider and understand the Purpose of Internal Auditing and the nature of the internal audit services to be provided. Internal auditors should start by understanding the internal audit charter, the internal audit plan, and the factors that help determine which engagements are included in the plan. When planning and performing internal audit services, internal auditors also consider the interests of the organization's customers and other stakeholders (including the public) affected by the organization's actions. Such interests include stakeholders' expectations (such as fair and honest business practices), needs (such as safety), and potential exposure to underlying risks that may not be obviously related to the organization's strategy and objectives.

The considerations in due professional care comprise the circumstances and aspects of risk that the chief audit executive must consider when performing the risk assessment on which the internal audit plan is based. Relevant circumstances include the organization's strategy and objectives and the adequacy and effectiveness of the organization's governance, risk management, and control processes.

Additionally, internal auditors consider these circumstances relative to an activity under review during engagement planning, as described in Domain V: Performing Internal Audit Services. The complexity, materiality, and significance of risks being evaluated is relative. A risk may not be material or significant to the organization but may be material or significant in an engagement or to an activity under review.

Thus, understanding the complexity, materiality, and significance in context is necessary to properly assess relevant risks and determine which risks should be prioritized for further evaluation.

Due professional care also requires weighing the costs (such as resource requirements) of the internal audit services against the benefits that may result. For example, if the controls in an activity under review are not adequately designed, the benefits of fully evaluating the effectiveness of those controls are not likely to be worth the costs. Internal auditors seek to provide the most value or benefit for the organization's investment in internal audit services. Additionally, thorough planning requires internal auditors to consider the techniques, tools, technology, and extent and timeliness of work needed to achieve the engagement objectives most efficiently. Internal auditors, especially the chief audit executive, should consider the use of data analysis software and other technology that support the review and evaluation processes.

Proper engagement supervision and a quality assurance and improvement program promote due professional care. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)

Examples of Evidence of Conformance

- Planning notes documenting the strategy and objectives of the organization and activity under review.
- Documented assessments of governance, risk management, and control processes.
- Notes showing assessment of risks including errors, noncompliance, and fraud.
- Notes from meetings or discussions of the potential costs and benefits of internal audit services and the extent and timeliness of engagement work.
- Workpapers indicating supervisory review of engagements.
- Internal auditors' performance reviews.
- Notes from meetings, training, or other discussion of due professional care.
- Feedback from stakeholders solicited through surveys or other tools.
- Internal and external assessments performed as part of the internal audit function's quality assurance and improvement program.

Standard 4.3 Professional Skepticism

Requirements

Internal auditors must exercise professional skepticism when planning and performing internal audit services.

To exercise professional skepticism, internal auditors must:

- Maintain an attitude that includes inquisitiveness.
- Critically assess the reliability of information.
- Be straightforward and honest when raising concerns and asking questions about inconsistent information.
- Seek additional evidence to make a judgment about information and statements that might be incomplete, inconsistent, false, or misleading.

Considerations for Implementation

Professional skepticism enables internal auditors to make objective judgments based on facts, information, and logic, rather than trust or belief. Skepticism is the attitude of always questioning or doubting the validity and truthfulness of claims, statements, and other information. Internal auditors apply professional skepticism when they seek evidence to support and validate statements made by management, rather than simply trusting the information presented as true or genuine without question or doubt. Professional skepticism requires curiosity and the willingness to explore beyond the surface level of a given topic.

When gathering and analyzing information, internal auditors should apply professional skepticism to determine whether information is relevant, reliable, and sufficient. If internal auditors determine that information is incomplete, inconsistent, false, or misleading, they should perform additional analyses to identify the correct and complete information needed to support engagement results. Additional validation is provided by the review and approval of workpapers and/or engagement communications by the chief audit executive or a designated engagement supervisor.

Chief audit executives should help internal auditors build their competency related to professional skepticism. Workshops and other training opportunities can help internal auditors develop and learn to apply professional skepticism and understand the importance of avoiding bias and maintaining an open and curious mindset. Internal auditors can learn to recognize information that is inconsistent, incomplete, false, and/or misleading.

Examples of Evidence of Conformance

- Records of relevant training planned and completed, including a list of participants.
- Workpapers identifying an internal auditor's approach to evaluate and validate information gathered during an engagement.
- Documentation that false or misleading information was handled as an engagement finding.
- Workpapers and engagement communications, reviewed and signed or initialed by the engagement supervisor.

Principle 5 Maintain Confidentiality

Internal auditors use and protect information appropriately.

Because internal auditors have unrestricted access to the data, records, and other information necessary to fulfill the internal audit mandate, they often receive information that is confidential, proprietary, and/or personally identifiable. (See also Principle 6 Authorized by the Board and its standards.) This includes information in physical and digital form as well as information derived from oral communication, such as formal or informal meeting discussions. Internal auditors must respect the value and ownership of information they receive by using it only for professional purposes and protecting it from unauthorized access or disclosure, internally and externally.

Standard 5.1 Use of Information

Requirements

Internal auditors must follow the relevant policies, procedures, laws, and regulations when using information. The information must not be used for personal gain or in a manner contrary or detrimental to the organization's legitimate and ethical objectives.

Considerations for Implementation

Internal auditors have unrestricted access to information to enable them to provide internal audit services without interference. However, using and handling information appropriately is the responsibility of every internal auditor. The inappropriate use and handling of information that is confidential, proprietary, and/or personally identifiable may have unintended consequences, such as reputational damage and fines for violating laws and/or regulations.

The policies and procedures of the organization and the internal audit function generally govern internal auditors' handling and use of information throughout its lifecycle, from its point of access to its collection, transfer, storage, and/or destruction. Additionally, internal auditors should be aware of and compliant with any policies and procedures related to the third-party information they may access.

The chief audit executive should discuss with internal auditors the policies, procedures, and expectations related to the appropriate use of information to which they have access. The chief audit executive may require internal auditors to acknowledge their understanding through signed attestations or other formats.

When handling sensitive and/or personal data, the internal audit function should apply appropriate digital security measures. Examples include automated controls such as passwords and encryption.

Examples of misusing information include using, selling, or releasing insider financial, strategic, or operational knowledge of the organization to inform decisions to purchase or sell stock or to create a competitive product.

Examples of Evidence of Conformance

- Effectively designed and operating controls over access to and use of information.
- Documentation of relevant policies, procedures, and training related to the proper use of information.
- Minutes from meetings during which the appropriate use of information was discussed.
- Attendance records of training on use of information.
- Documentation by which internal auditors acknowledge their understanding of relevant policies, procedures, laws, and regulations.
- Performance reviews demonstrating that relevant policies, procedures, laws, and regulations have been followed.

Standard 5.2 Protection of Information

Requirements

Internal auditors must be aware of their responsibilities for protecting information and demonstrate respect for the confidentiality, privacy, and ownership of information acquired when performing internal audit services or as the result of professional relationships.

Internal auditors must understand and abide by the laws, regulations, policies, and procedures related to confidentiality, information privacy, and information security that apply to the organization and internal audit function.

Considerations specifically relevant to the internal audit function include:

- Custody, retention, and disposal of engagement records.
- Release of engagement records to internal and external parties.
- Handling of, access to, or copies of confidential information when it is no longer needed.

Internal auditors must not disclose confidential information to unauthorized parties unless there is a legal or professional responsibility to do so.

Internal auditors must manage the risk of exposing or disclosing information inadvertently.

The chief audit executive must ensure that the internal audit function and individuals assisting the internal audit function adhere to the same protection requirements.

Considerations for Implementation

The information acquired, used, and produced by the internal audit function is protected by laws, regulations, and the policies and procedures of the organization and the internal audit function and generally cover physical and digital security and access, retention, and disposal of information.

The chief audit executive should consult with legal counsel to better understand the impact of legal and/or regulatory requirements and protections (for example, legal privilege or attorney-client privilege). The organization's policies and procedures may require that specific authorities review and approve business information before external release.

Information access may be monitored to verify whether methodologies are followed. Information may be protected from intentional or unintentional disclosure through controls such as data encryption, password protection, email distribution, restrictions on the use of social media, and restrictions on physical access. When internal auditors no longer need access to the data, digital permissions should be revoked and printed copies should be handled according to established methodologies.

Examples of confidential information that may be protected from disclosure include individual salaries and records of personnel issues.

The chief audit executive should periodically assess and confirm internal auditors' needs for access to information and whether access controls are working effectively.

Examples of Evidence of Conformance

- Documentation demonstrating application of relevant methodologies.
- Documentation regarding the implementation of mechanisms that restrict information access and mitigate the risk of circumventing prevailing controls.
- Attendance records of training on protection of information.
- Documentation by which internal auditors acknowledge their understanding of relevant policies, procedures, laws, and regulations.
- Documentation of restrictions on the distribution of workpapers and final communication.
- Documentation of authorized disclosures and distribution.
- Records of disclosures required by law or approved by legal counsel, if applicable, and/or the board and senior management.
- Signed agreements to confidentiality or nondisclosure of information.
- Performance reviews demonstrating that policies and procedures related to the protection and disclosure of information have been followed.

Domain III: Governing the Internal Audit Function



Appropriate governance arrangements are essential to enable the internal audit function to be effective. This domain outlines the requirements for chief audit executives to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. This domain also outlines senior management's responsibilities that support the board's responsibilities and promote strong governance of the internal audit function.

While the chief audit executive is responsible for the requirements in this domain, activities of the board and senior management are essential to the internal audit function's ability to fulfill the Purpose of Internal Auditing. These activities are identified as "essential conditions" in each standard and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, ultimately enabling an effective internal audit function.

Meeting with the Board and Senior Management

The chief audit executive must discuss this domain with the board and senior management. The discussions should focus on:

- The Purpose of Internal Auditing as articulated in Domain I: Purpose of Internal Auditing.
- The essential conditions outlined under each of the standards in Domain III: Governing the Internal Audit Function.
- The potential impact on the effectiveness of the internal audit function if the board or senior management does not provide the support outlined in the essential conditions.

The discussions are needed to inform the board and senior management about the importance of the essential conditions and to gain alignment among their respective responsibilities.

The nature and frequency of these discussions depend on the circumstances and changes in the organization. For example, the chief audit executive should discuss these essential conditions with the board and senior management if:

- The Standards change significantly or a new internal audit function is created.
- The chief audit executive is new to the role or organization.
- There are significant changes in the relationship between the board and the chief audit executive, such as a new chairperson to whom the chief audit executive reports or a change in the structure or composition of the board that affects this reporting relationship.
- There are significant changes in the structure or composition of senior management that affect the chief audit executive's positioning within the organization.

It is important for the chief audit executive to receive input from both the board and senior management. While the board may have the ultimate responsibility to approve the internal audit mandate, charter, and other requirements outlined in this domain, senior management typically has a key role in providing input to the board and the chief audit executive. Senior management's perspective is valuable and helps support the internal audit function's positioning and authority in the organization.

Disagreements on Essential Conditions

If either the board or senior management disagrees with one or more of these essential conditions, the chief audit executive must emphasize – with examples – how absence of the condition(s) may affect the internal audit function's ability to fulfill its purpose or conform with specific standards. The chief audit executive should also discuss alternatives to the essential conditions that may provide the same results.

The chief audit executive may reach agreement with the board and senior management that one or more of the essential conditions are not necessary to conform with the Standards. In such instances, the chief audit executive must document:

- The reasons for agreeing that a particular condition is unnecessary.
- Alternative conditions that compensate for the absent conditions, to support the judgments of the board and senior management.

If the chief audit executive does not agree with the board's and/or senior management's reasons for not performing one or more of the conditions, the chief audit executive may conclude that the internal audit function cannot conform with the Standards. In such cases, the chief audit executive should document the reasons why the board and/or senior management will not perform the essential conditions. This documentation should be shared with the board and senior management to ensure clarity regarding their positions and made available to an external quality assessor.

If the chief audit executive position is open for any reason, the board should appoint one or more individuals in the interim.

Definition of Board

The glossary to the Global Internal Audit Standards defines the term "board" as the highest-level body charged with governance, such as:

- A board of directors.
- An audit committee.
- A board of governors or trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

In an organization that has more than one governing body, "board" refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

If none of the above exists, "board" should be read as referring to the group or person that acts as the organization's highest-level governing body. Examples include the head of the organization and senior management.

If the nature of the board varies from the definition provided in the glossary, the chief audit executive should document the governing structure to which the internal audit function reports and how this structure is consistent with the definition of board. This may include environments where multiple boards exist, sometimes found in multi-national organizations or the public sector, or where a multi-tiered structure is in place.

Application of this Domain

The Standards apply to individuals and functions that provide internal audit services. Internal audit services may be provided by persons within or outside the organization for organizations that vary in purpose, size, complexity, and structure. The Standards apply whether an organization employs internal auditors directly, contracts them through an external service provider, or both. The chief audit executive's responsibilities are performed by one or more individuals designated by the board. The chief audit executive, whether employed directly by the organization or through an external service provider, is responsible for conformance with the Standards as demonstrated through the quality assurance and improvement program. In all cases, the board retains the responsibility to support and oversee the internal audit function.

Principle 6 Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

The internal audit function receives its mandate from the board (or applicable law in certain public sector environments). The mandate specifies the authority, role, and responsibilities of the internal audit function and is documented in the internal audit charter. The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight. The internal audit function carries out the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the organization.

Standard 6.1 Internal Audit Mandate

Requirements

The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate. In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate. (See also Standard 6.2 Internal Audit Charter and "Applying the Global Internal Audit Standards in the Public Sector.")

To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other's roles and responsibilities. (See also Standard 9.5 Coordination and Reliance.)

The chief audit executive must document or reference the mandate in the internal audit charter, which is approved by the board. (See also Standard 6.2 Internal Audit Charter.)

Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, role, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.
- Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.

Senior Management

- Participate in discussions with the board and chief audit executive and provide input on expectations for the internal audit function that the board should consider when establishing the internal audit mandate.
- Support the internal audit mandate throughout the organization and promote the authority granted to the internal audit function.

Considerations for Implementation-

The chief audit executive informs the board and senior management about the characteristics of an effective internal audit function by sharing knowledge about the Standards, relevant laws and/or regulations, and the results of research into leading practices of internal audit functions.

The chief audit executive should discuss with the board and senior management the internal audit mandate and other key considerations in the internal audit charter, focusing on helping the board and senior management to understand:

- Authority – The internal audit function’s authority is created by its direct reporting relationship to the board. Such authority allows for free and unrestricted access to the board, as well as all activities across the organization (for example, records, personnel, and physical property).
- Role(s) – The primary role of the internal audit function is to conduct internal audit activities and deliver internal audit services. There may be situations where roles beyond internal auditing are part of the chief audit executive’s responsibilities, such as risk management or compliance. These nonaudit roles are discussed further in Standard 7.1 Organizational Independence.
- Responsibilities – An internal audit function’s responsibilities comprise its accountability and obligations to carry out its role(s), as well as the specific expectations of key stakeholders. For example, responsibilities typically include expectations regarding performance of audit services; communications; compliance with laws, regulations, and policies; conformance with the Global Internal Audit Standards; and other activities incumbent in the role.

- Scope – The scope of internal audit services covers the entire breadth of the organization for which the internal audit function is responsible for providing services. This may include all activities, assets, and personnel of the organization or may be restricted to a subset according to geography or other division. The scope may specify the nature of internal audit services (for example, assurance only or assurance and advisory, focus on financial statements, compliance with laws and/or regulations), or may specify other limitations on the coverage of internal audit services.
- Internal audit services – Internal audit services may simply be defined as assurance and advisory services or may be more specifically defined, such as performance auditing, assurance regarding internal controls over financial reporting, and investigations.

Circumstances may justify a follow-up discussion with the board and senior management on the internal audit mandate or other aspects of the internal audit charter. These conditions may include, but are not limited to:

- A notable change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the board and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which it operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

These conditions may arise at any point during the year. However, the chief audit executive should formally consider any such changes at least annually.

The chief audit executive coordinates with the organization's assurance providers and advises the board regarding how other functions may contribute to the internal audit mandate. By helping the board understand the roles and responsibilities of other internal and external assurance providers and regulators, the chief audit executive may provide clarity about an appropriate internal audit mandate. (See also Standard 9.5 Coordination and Reliance.)

Examples of Evidence of Conformance

- Minutes of board meetings where the mandate was discussed, which may be part of the broader approval of the internal audit charter.
- Minutes of board meetings during which any changes to the internal audit charter are discussed and approved by the board.

Standard 6.2 Internal Audit Charter

Requirements

The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function's:

- Purpose of Internal Auditing.
- Commitment to adhering to the Global Internal Audit Standards.
- Mandate, including scope and types of services to be provided, and the board's responsibilities and expectations regarding management's support of the internal audit function. (See also Standard 6.1 Internal Audit Mandate.)
- Organizational position and reporting relationships. (See also Standard 7.1 Organizational Independence.)

The chief audit executive must discuss the proposed charter with the board and senior management to confirm that it accurately reflects their understanding and expectations of the internal audit function.

Essential Conditions

Board

- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.
- Approve the internal audit charter.
- Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization.

Senior Management

- Communicate with the board and chief audit executive about management's expectations that should be considered for inclusion in the internal audit charter.

Considerations for Implementation

Key requirements for the internal audit charter are outlined in Standards 6.1 Internal Audit Mandate and 7.1 Organizational Independence.

The internal audit charter should describe administrative reporting responsibilities, such as the processes for:

- Approving the internal audit function's human resources administration and budgets.
- Approving the chief audit executive's expenses.
- Reviewing the chief audit executive's performance.

Where laws or regulations specify the reporting relationship, references to such documents should be included in the charter. If laws and/or regulations comprehensively cover the requirements for a charter, they may be substituted for the formal charter.

The format of an internal audit charter may vary from one organization to another. While there are models for an internal audit charter, the chief audit executive should customize the internal audit charter to address the unique organizational aspects that may affect the internal audit mandate, scope, and internal audit services.

The chief audit executive typically presents a final draft of the internal audit charter during a board meeting to be discussed and approved.

The chief audit executive and the board should also agree on the frequency with which to review and reaffirm whether the charter's provisions continue to enable the internal audit function to accomplish its objectives. A leading practice is to review the charter periodically, reference it when questions about the internal audit mandate arise, and update it as needed.

Other topics for consideration in the internal audit charter include:

- Safeguards to objectivity and independence, including processes for addressing potential impairments, and the frequency with which those safeguards are re-evaluated to ensure they are achieving the desired result. (See also Standard 7.1 Organizational Independence.)
- Unrestricted access, including how the internal audit function accesses the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Communications, including the nature and timing of communicating with the board and senior management.
- Audit process, including any expectations regarding communications with management in the area under review (before, during, and after an engagement) and how disagreements with management are handled.
- Quality assurance and improvement, including expectations for developing and conducting internal and external assessments of the internal audit function and communicating the results of the assessments. (See also Standards 8.3 Quality and 8.4 External Quality Assessment, and Principle 12 Enhance Quality and its standards.)
- Approvals, including any circumstances specified by the board and senior management.

Examples of Evidence of Conformance

- Minutes of the board meetings during which the internal audit charter was discussed and approved.
- The approved charter and the date approved.
- Minutes of board meetings that include evidence that the chief audit executive periodically reviews the internal audit charter with the board and senior management.

Standard 6.3 Board and Senior Management Support

Requirements

The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.

The chief audit executive must coordinate the internal audit function's board communications with senior management to support the board's ability to fulfill its requirements.

Essential Conditions

Board

- Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.
- Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Support the chief audit executive through regular, direct communications.
- Demonstrate support by:
 - Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.
 - Approving the internal audit charter, internal audit plan, budget, and resource plan.
 - Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function's scope, access, authority, or resources limit the function's ability to carry out its responsibilities effectively.
 - Meeting periodically with the chief audit executive in sessions without senior management present.

Senior Management

- Support recognition of the internal audit function throughout the organization.
- Work with the board and management throughout the organization to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.

Considerations for Implementation

The board and the chief audit executive should meet at least annually without management present. Holding such meetings quarterly is considered a leading governance practice. Such meetings often occur as a private or closed session following a normally scheduled board meeting.

The chief audit executive should also have other interactions with the board between official meetings to keep the board apprised of the internal audit function's progress. The types of information and the level of detail to be communicated by the chief audit executive to the board should be agreed upon by both parties.

As discussed in Standard 7.1 Organizational Independence, it is important that the chief audit executive report administratively to an individual in the organization who can support the internal audit function's pursuit of the internal audit mandate. A leading practice is for the chief audit executive to report to the chief executive officer or equivalent.

While it is critical for the chief audit executive to meet privately with the board, the chief audit executive should inform senior management of such discussions, unless doing so is inappropriate (for example, if a private conversation relates to an impropriety by a member of senior management).

The chief audit executive should work with senior management to understand each other's reporting requirements to the board to help enable timely, clear, and transparent reporting that is not redundant or conflicting. This helps the board exercise its oversight responsibilities and enables a collaborative working relationship between the chief audit executive and senior management.

The board's approval of the internal audit budget and resource plan is important as these demonstrate that the internal audit function has the resources necessary to complete its planned audit activities. The details provided to the board are subject to the judgment of the chief audit executive.

Examples of Evidence of Conformance

- Minutes of board meetings indicating board review and approval of the internal audit plan, internal audit budget, and resource plan.
- Minutes or other documentation of communication between the board and senior management in which the internal audit function's unrestricted access was discussed.
- An agreed-upon matrix or similar documentation showing what information should be communicated by the chief audit executive to the board and senior management and the expected frequency.

Principle 7 Positioned Independently

The board establishes and protects the internal audit function's independence and qualifications.

The board is responsible for enabling the independence of the internal audit function. Independence is defined as the freedom from conditions that impair the internal audit function's ability to carry out its responsibilities in an unbiased manner. The internal audit function is only able to fulfill the Purpose of Internal Auditing when the chief audit executive reports directly to the board, is qualified, and is positioned at a level within the organization that enables the internal audit function to discharge its services and responsibilities without interference.

Standard 7.1 Organizational Independence

Requirements

The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed to address the impairment.

The chief audit executive must document in the internal audit charter the reporting relationships and organizational positioning of the internal audit function, as determined by the board. (See also Standard 6.2 Internal Audit Charter.)

The chief audit executive must discuss with the board and senior management any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance. The chief audit executive must advise the board and senior management of the types of safeguards to manage actual, potential, or perceived impairments.

When the chief audit executive has one or more ongoing roles beyond internal auditing, the responsibilities, nature of work, and established safeguards must be documented in the internal audit charter. If those areas of responsibility are subject to internal auditing, alternative processes to obtain assurance must be established, such as contracting with an objective, competent external assurance provider that reports independently to the board.

When the chief audit executive's nonaudit responsibilities are temporary, assurance for those areas must be provided by an independent third party during the temporary assignment and for the subsequent 12 months. Also, the chief audit executive must establish a plan to transition those responsibilities to management.

If the governing structure does not support organizational independence, the chief audit executive must document the characteristics of the governing structure limiting independence and any safeguards that may be employed to achieve this principle.

Essential Conditions

Board

- Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.
- Authorize the appointment and removal of the chief audit executive.
- Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.
- Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.

- Require that the chief audit executive be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board when necessary.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the chief audit executive that are beyond the scope of internal auditing.
- Engage with senior management and the chief audit executive to establish appropriate safeguards if chief audit executive roles and responsibilities impair or appear to impair the internal audit function's independence.
- Engage with senior management to ensure that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.

Senior Management

- Position the internal audit function at a level within the organization that enables it to perform its services and responsibilities without interference, as directed by the board.
- Recognize the chief audit executive's direct reporting relationship with the board.
- Engage with the board and the chief audit executive to understand any potential impairments to the internal audit function's independence caused by nonaudit roles or other circumstances and support the implementation of appropriate safeguards to manage such impairments.
- Provide input to the board on the appointment and removal of the chief audit executive.
- Solicit input from the board on the performance evaluation and remuneration of the chief audit executive.

Considerations for Implementation

Internal auditing is most effective when the internal audit function is directly accountable to the board (also known as "functionally reporting to the board"), rather than directly accountable to management for the activities over which it provides assurance and advice. A direct reporting relationship between the board and the chief audit executive enables the internal audit function to perform internal audit services and communicate engagement results without interference or undue limitations. Examples of interference include management failing to provide requested information in a timely manner and restricting access to information, personnel, or physical properties. Limiting budgets or resources in a way that interferes with the internal audit function's ability to operate effectively is an example of undue limitation. (See also Standard 11.3 Communicating Results.)

While the chief audit executive reports functionally to the board, the administrative reporting relationship is often to a member of management. This enables access to senior management and the authority to challenge management's perspectives. To achieve this authority, it is leading practice for the chief audit executive to report administratively to the chief executive officer or equivalent, although reporting to

another senior officer may achieve the same objective if appropriate safeguards are implemented. Subsidiary, branch, and divisional heads of the internal audit function should be able to communicate directly with the senior management responsible for those areas.

When evaluating whether independence is impaired, the chief audit executive should consider reporting relationships, roles, and responsibilities to determine whether actual, potential, or perceived impairments exist. Additionally, through discussions with the concerned parties, the chief audit executive may be able to resolve any situations of perceived impairments that do not in fact affect the internal audit function's ability to perform its responsibilities independently.

Situations that may introduce impairments to independence include:

- The chief audit executive lacks direct communication or interaction with the board.
- Management attempts to limit the scope of the internal audit services that were previously approved by the board and documented in the internal audit charter.
- Management attempts to restrict access to the data, records, information, personnel, and physical properties required to perform the internal audit services.
- Management pressures internal auditors to suppress or change internal audit findings.
- The budget for the internal audit function is reduced to a level that leaves the function unable to fulfill its responsibilities as outlined in the internal audit charter.
- An assurance engagement is performed by the internal audit function or supervised by the chief audit executive in a functional area for which the chief audit executive is responsible, has oversight, or is otherwise able to exert significant influence.
- The internal audit function performs, or the chief audit executive supervises, assurance services related to an activity that is managed by a senior executive (non-CEO) to which the chief audit executive reports administratively. For example, the chief audit executive reports to the chief financial officer and is responsible for auditing treasury, a function that also reports to the chief financial officer.

In addition to the responsibilities of managing the internal audit function, the chief audit executive is sometimes asked to take on nonaudit roles that may impair or appear to impair the internal audit function's independence. Examples include situations such as:

- A new regulatory requirement prompts an immediate need to develop controls and other risk management activities to ensure compliance.
- The chief audit executive has the most appropriate expertise to adapt existing risk management activities to a new business segment or geographic market.
- The organization's resources are too constrained or the organization is too small to afford a separate compliance function.

When discussing nonaudit roles and responsibilities with the board and senior management, the chief audit executive should identify appropriate safeguards depending on whether the roles are permanent or temporary and intended to be transferred to management.

When the board agrees that an impairment has occurred, the chief audit executive should suggest to the board and senior management potential safeguards to manage the risks. It is also important to specify a timeline for transitioning temporary nonaudit responsibilities to management.

The requirement is to have assurance activities overseen by an independent third party for the subsequent 12 months after the chief audit executive completes temporary responsibilities in that area. However, judgment should be used as there may be circumstances whereby the perception of impairment may exist beyond 12 months. The chief audit executive should discuss with the board and senior management whether 12 months is appropriate or not.

To determine the other parties to which disclosure of existing impairments must be made, the chief audit executive should consider the nature of the impairment, the impairment's impact on the reliability of the results of internal audit services, and the expectations of relevant stakeholders. If a potential impairment of the internal audit function's independence is discovered after an engagement has been completed that may affect the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions, the chief audit executive should discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Standards 2.3 Disclosing Impairments to Objectivity and 11.4 Errors and Omissions.)

Before a chief audit executive is hired, the board should be involved in the recruitment and appointment process. For example, the board may discuss the qualifications and competencies necessary to lead the internal audit function and perform any additional roles and responsibilities expected by the organization. Additionally, the board should consider reviewing candidates' résumés and participating in interviews before a candidate is selected.

Examples of Evidence of Conformance

- The internal audit charter, which documents the internal audit function's reporting relationships.
- Meeting minutes or other evidence of the chief audit executive's direct communication with the board and senior management regarding potential impairments to independence and planned safeguards.
- Board meeting minutes or other documentation showing that the chief audit executive confirmed with the board the ongoing independence of the internal audit function or discussed impairments affecting the internal audit function's ability to fulfill its mandate and the safeguards to manage the impairments.
- The internal audit charter documenting board approval of long-term nonaudit roles and responsibilities and corresponding safeguards to independence, including the expected duration of the roles, responsibilities, and safeguards and how the effectiveness of the safeguards will be evaluated periodically.
- Documented methodologies to be followed when an impairment is suspected or identified.
- Formal action plans that outline specific safeguards to address independence concerns.
- Documentation of assurance services to be provided by other internal or external providers as a safeguard to independence.
- Minutes or other documentation evidencing the board's approval of the appointment or removal of the chief audit executive.

Standard 7.2 Chief Audit Executive Qualifications

Requirements

The chief audit executive must help the board understand the qualifications and competencies of a chief audit executive that are necessary to manage the internal audit function. The chief audit executive facilitates this understanding by providing information and examples of common and leading qualifications and competencies.

The chief audit executive must maintain and enhance the qualifications and competencies necessary to fulfill the roles and responsibilities expected by the board. (See also Principle 3 Demonstrate Competency and its standards.)

Essential Conditions

Board

- Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function.
- Approve the chief audit executive's roles and responsibilities and identify the necessary qualifications, experience, and competencies to carry out these roles and responsibilities.
- Engage with senior management to appoint a chief audit executive with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services.

Senior Management

- Engage with the board to determine the chief audit executive's qualifications, experience, and competencies.
- Enable the appointment, development, and remuneration of the chief audit executive through the organization's human resources processes.

Considerations for Implementation

The board collaborates with senior management to determine which competencies and qualifications the organization expects in a chief audit executive. The competencies may vary according to the internal audit mandate, the complexity and specific needs of the organization, the organization's risk profile, and the industry and jurisdiction within which the organization operates, among other factors. The desired competencies and qualifications are typically documented in a job description and include:

- A comprehensive understanding of the Global Internal Audit Standards and leading internal audit practices.
- Experience building and managing an effective internal audit function by recruiting, hiring, and training internal auditors and helping them develop relevant competencies.
- Certified Internal Auditor® designation or other relevant professional education, certifications, and credentials.
- Leadership experience.
- Industry or sector experience.

While this list includes ideal competencies and qualifications, the chief audit executive may be selected for other qualities or areas of expertise that are supplemented by the competencies of other members of the internal audit function, especially when the chief audit executive has entered the position from a different role, industry, or sector. In such cases, the chief audit executive should work collaboratively with knowledgeable members of the internal audit function and network with others in the profession to gain relevant experience.

The board may review and approve the job description for the chief audit executive to ensure it reflects the expected qualifications and competencies.

The board should encourage the chief audit executive to pursue continuing professional education, membership in professional associations, professional certifications, and other opportunities for professional development. (See also Principle 3 Demonstrate Competency and its standards.)

Given the importance of the chief audit executive role, a succession plan should be developed to identify internal or external candidates for replacing the chief audit executive. Such plans should be aligned with the organization's overall succession-planning process and be shared with the board and senior management.

Examples of Evidence of Conformance

- Documented approval by the board of the chief audit executive's job description and/or appointment or other evidence that the board evaluated the qualifications and competencies required for the chief audit executive's role.
- The chief audit executive's professional education plans and evidence of completion.
- Documented participation in professional associations.
- Documented succession-planning conversations with the board, senior management, and/or the organization's human resources function.

Principle 8 Overseen by the Board

The board oversees the internal audit function to ensure the function's effectiveness.

Board oversight is essential to enable the overall effectiveness of the internal audit function. Achieving this principle requires collaborative and interactive communication between the board and the chief audit executive as well as the board's support in ensuring the internal audit function obtains sufficient resources to fulfill the internal audit mandate. Additionally, the board receives assurance about the quality of the performance of the chief audit executive and the internal audit function through the quality assessment and improvement program, including the board's direct review of the results of the external quality assessment.

Standard 8.1 Board Interaction

Requirements

The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.

The chief audit executive must report to the board and senior management:

- The internal audit plan and budget and subsequent significant revisions to them. (See also Standards 6.3 Board and Senior Management Support and 9.4 Internal Audit Plan.)
- Changes potentially affecting the mandate or charter. (See also Standards 6.1 Internal Audit Mandate and 6.2 Internal Audit Charter.)
- Potential impairments to independence. (See also Standard 7.1 Organizational Independence.)
- Results of internal audit services, including conclusions, themes, assurance, advice, insights, and monitoring results. (See also Standards 11.3 Communicating Results, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Results from the quality assurance and improvement program. (See also Standards 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 12.2 Performance Measurement.)

There may be instances when the chief audit executive disagrees with senior management or other stakeholders on the scope, findings, or other aspects of an engagement that may affect the ability of the internal audit function to execute its responsibilities. In such cases, the chief audit executive must provide the board with the facts and circumstances to allow the board to consider whether, in its oversight role, it should intervene with senior management or other stakeholders.

Essential Conditions

Board

- Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate.
- Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.
- Set expectations with the chief audit executive for:
 - The frequency with which the board wants to receive communications from the chief audit executive.
 - The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance.

- The process for escalating matters of importance to the board.
- Gain an understanding of the effectiveness of the organization’s governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.
- Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate.

Senior Management

- Communicate senior management’s perspective on the organization’s strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.
- Assist the board in understanding the effectiveness of the organization’s governance, risk management, and control processes.
- Work with the board and the chief audit executive on the process for escalating matters of importance to the board.

Considerations for Implementation

To provide the board with the information needed to exercise its oversight responsibilities, two-way communication is needed. The chief audit executive may use a variety of communication methods such as written and oral reports and presentations, formal meetings, and informal discussions. The chief audit executive may document the board’s expectations formally in the internal audit methodologies. Periodically, the chief audit executive should confirm with the board that the frequency, nature, and content of communications meet the board’s expectations and help the board achieve its oversight responsibilities.

The frequency of communication between the board and the chief audit executive should consider the need for timely communication about significant issues. The chief audit executive should seek information from the board about its perspectives and expectations related to understanding and oversight of not just financial risk management but also a broad range of nonfinancial governance and risk management concerns including, for example, strategic initiatives, cybersecurity, health and safety, sustainability, business resilience, and reputation.

To identify the issues the chief audit executive escalates beyond senior management, criteria may be established outlining the significance or materiality that exceeds the risk tolerance. The criteria should be linked to a process for the chief audit executive to follow to escalate communications from management to the board. Typically, disagreements between the chief audit executive and senior management should be discussed with senior management to ensure the information presented to the board is accurate and reflects management’s perspective.

Typically, formal board meetings allow formal communication at least quarterly. Additionally, the chief audit executive and board members often communicate between meetings as needed, sometimes informally.

Examples of Evidence of Conformance

- Board agendas and meeting minutes documenting the nature, topics, and frequency of discussions with the chief audit executive.
- Presentations made by the chief audit executive to the board.
- Internal audit communications to board members.
- Documentation of the criteria for identifying issues to be brought to the attention of the board and a process for communicating or escalating such issues.

Standard 8.2 Resources

Requirements

The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.

Essential Conditions

Board

- Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Consider the impact of insufficient resources on the internal audit mandate and plan.
- Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.

Senior Management

- Engage with the board to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Engage with the board and the chief audit executive on any issues of insufficient resources and how to remedy the situation.

Considerations for Implementation

To analyze the sufficiency of the resources necessary to fulfill the internal audit mandate and achieve the plan, the chief audit executive may perform a gap analysis between the resources available within the internal audit function and those needed to perform internal audit services. (See also Principle 10 Manages Resources and its standards.) The chief audit executive's strategy should provide a resource plan, which may include a budget request, and should consider options for staffing the internal audit function and using technology to perform services. This plan may also include a cost-benefit analysis of the various approaches to present to the board.

Although a discussion of resources between the board and the chief audit executive typically occurs at least annually in connection with presentation of the internal audit plan, having a quarterly discussion is a leading practice. The discussion should include considering the options to achieve the desired internal audit coverage, including outsourcing or using guest auditors, as well as implementing technology to improve the internal audit function's efficiency and effectiveness.

Examples of Evidence of Conformance

- Agendas, meeting minutes, and communications between the chief audit executive and the board and/or senior management, documenting discussions of the sufficiency of internal audit resources.
- Internal audit resource plans indicating the sufficiency of resources needed to achieve the internal audit plan.
- Budget requests pertaining to internal audit resources.
- Documentation of gap analyses between the internal audit plan and available resources.
- Documentation of a cost-benefit analysis.
- Documentation of the chief audit executive's resourcing strategy.

Standard 8.3 Quality

Requirements

The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments:

- External assessments. (See also Standard 8.4 External Quality Assessment.)
- Internal assessments. (See also Standard 12.1 Internal Quality Assessment.)

At least annually, the chief audit executive must communicate the results of the internal quality assessment to the board and senior management. The results of the external quality assessments must be reported when completed. In both cases, such communications include:

- The internal audit function's conformance with the Standards and achievement of performance objectives.
- If applicable, compliance with laws and/or regulations relevant to internal auditing.
- If applicable, plans to address the internal audit function's deficiencies and opportunities for improvement.

Essential Conditions

Board

- Discuss with the chief audit executive the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function.
- Approve the internal audit function's performance objectives at least annually. (See also Standard 12.2 Performance Management.)

- Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes:
 - Reviewing the internal audit function’s performance objectives, including its conformance with the Standards, laws and regulations; ability to meet the internal audit mandate; and progress towards completion of the internal audit plan.
 - Considering the results of the internal audit function’s quality assurance and improvement program.
 - Determining the extent to which the internal audit function’s performance objectives are being met.

Senior Management

- Provide input on the internal audit function’s performance objectives.
- Participate with the board in an annual assessment of the chief audit executive and internal audit function.

Considerations for Implementation

The chief audit executive’s communications to the board and senior management regarding the internal audit function’s quality assurance and improvement program should include:

- The scope, frequency, and results of internal and external quality assessments conducted under the direction of, or with the assistance of, the chief audit executive.
- Action plans that address deficiencies and opportunities for improvement. Actions should be agreed upon with the board.
- Progress toward completing the agreed-upon actions.

An assessment of the internal audit function’s quality may consider:

- The level of contribution to the improvement of governance, risk management, and control processes.
- Productivity of internal audit staff (for example, planned hours compared to actual hours on projects or time used on audit projects compared to administrative time).
- Compliance with internal audit laws and/or regulations.
- Cost efficiency of the internal audit processes.
- Strength of relationships with senior management and other key stakeholders.
- Other performance measures. (See also Standard 12.2 Performance Measurement.)

Examples of Evidence of Conformance

- Agendas and minutes from board meetings documenting discussions with the chief audit executive about the internal audit function’s quality assurance and improvement program.
- Chief audit executive presentations and other communications covering the results of the quality assessments and status of action plans to address any opportunities for improvement.
- Quality assurance and improvement program workpapers or other evidence demonstrating the completion of related activities.

Standard 8.4 External Quality Assessment

Requirements

The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.

When selecting the independent assessor or assessment team, the chief audit executive must ensure at least one person holds an active Certified Internal Auditor® designation.

Essential Conditions

Board

- Discuss with the chief audit executive the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.
- Collaborate with senior management and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Consider the responsibilities and regulatory requirements of the internal audit function and the chief audit executive, as described in the internal audit charter, when defining the scope of the external quality assessment.
- Review and approve the chief audit executive's plan for the performance of an external quality assessment. Such approval should cover, at a minimum:
 - The scope and frequency of assessments.
 - The competencies and independence of the external assessor or assessment team.
 - The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.
- Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor.
- Review and approve the chief audit executive's action plans to address identified deficiencies and opportunities for improvement, if applicable.
- Approve a timeline for completion of the action plans and monitor the chief audit executive's progress.

Senior Management

- Collaborate with the board and the chief audit executive to determine the scope and frequency of the external quality assessment.
- Review the results of the external quality assessment, collaborate with the chief audit executive and board to agree on action plans that address identified deficiencies and opportunities for improvement, if applicable, and agree on a timeline for completion of the action plans.

Considerations for Implementation

The board and chief audit executive may determine that it is appropriate to conduct an external assessment more frequently than every five years. There are several reasons to consider a more frequent review, including changes in leadership (for example, senior management or the chief audit executive), significant changes in internal audit methodologies, the merger of two or more internal audit functions, or significant staff turnover. Additionally, some organizations, such as those in highly regulated industries may prefer or be required to increase the frequency or scope of the external quality assessments.

The external quality assessment should include a comprehensive review of the adequacy of the internal audit function's:

- Conformance with the Global Internal Audit Standards.
- Mandate, charter, strategy, methodologies, processes, risk assessment, and internal audit plan.
- Compliance with applicable laws and/or regulations.
- Performance criteria and measures as well as assessment results.
- Competencies and due professional care, including the sufficient use of tools and techniques, and focus on continual development.
- Qualifications and competencies, including those of the chief audit executive role, as defined by the organization's job description and hiring profile.
- Integration into the organization's governance processes, including the relationships among those involved in positioning the internal audit function to operate independently.
- Contribution to the organization's governance, risk management, and control processes.
- Contribution to the improvement of the organization's operations and ability to attain its objectives.
- Ability to meet expectations articulated by the board, senior management, and stakeholders.

In addition to the requirement that at least one member of the external assessment team be a Certified Internal Auditor[®], other important qualifications of the assessment team to consider include:

- Experience with and knowledge of the Standards and leading internal audit practices.
- Experience as a chief audit executive or comparable senior level of internal audit management.
- Experience in the organization's industry or sector.
- Previous experience performing external quality assessments.
- Completion of external quality assessment training recognized by The Institute of Internal Auditors.
- Attestation by assessment team members that they have no conflicts of interest, in fact or appearance.

The chief audit executive should consider potential impairments to the independence of assessors driven by past, present, or anticipated future relationships with the organization, its personnel, or its internal audit function. If a potential assessor is a former employee of the organization, the length of time the assessor has been independent should be evaluated. Examples of potential impairments include:

- External audits of financial statements.
- Assistance to the internal audit function.
- Personal relationships.
- Previous or planned participation in internal quality assessments.
- Advisory services in governance, risk management, and control processes; financial reporting; or other areas.

Individuals from another department of the organization, although organizationally separate from the internal audit function, are not considered independent for the purpose of conducting an external assessment. Likewise, individuals from a related organization (for example, a parent organization, an affiliate in the same group of entities, or an entity with regular oversight, supervision, or quality assurance responsibilities with respect to the subject organization) are not considered independent. In the public sector, internal audit functions in separate entities within the same tier of government are not considered independent if they report to the same chief audit executive.

Reciprocal peer assessments between two organizations are not considered independent. However, assessments rotated among three or more peer organizations – organizations within the same industry, regional association, or other affinity group – may be considered independent. Care should be exercised to ensure that independence and objectivity are not impaired and that all team members are able to exercise their responsibilities fully.

A self-assessment with independent validation typically includes:

- A comprehensive and fully documented internal assessment that emulates the external quality assessment process in terms of evaluating the internal audit function's conformance with the Standards.
- Validation by a qualified, independent external quality assessor or assessment team. The independent validation should determine that the internal assessment was conducted completely and accurately.
- Benchmarking, leading practices, and interviews with key stakeholders, such as board members, senior management, and operational management.

Examples of Evidence of Conformance

- Board meeting minutes where the chief audit executive's external quality assessment plan is discussed and approved by the board.
- Formal external quality assessment report prepared and validated by a qualified, independent assessor.
- Presentations to the board by external assessors covering the results of the external quality assessment.
- Chief audit executive presentations to the board covering external assessment results and action plans, as appropriate.

Domain IV: Managing the Internal Audit Function



The chief audit executive is responsible for managing the internal audit function in accordance with the internal audit charter and Global Internal Audit Standards. This responsibility includes strategic planning, obtaining and deploying resources, building relationships, communicating with stakeholders, and ensuring and enhancing the performance of the function.

The individual responsible for managing the internal audit function is expected to conform with the Standards including performing the responsibilities described in this domain whether the individual is directly employed by the organization or contracted through an external service provider. The specific job title and responsibilities may vary across organizations.

The chief audit executive may delegate appropriate responsibilities to other qualified professionals in the internal audit function but retains ultimate accountability.

The direct reporting relationship between the board and the chief audit executive enables the internal audit function to fulfill its mandate. (See also Standard 7.1 Organizational Independence.) In addition, the chief audit executive typically has an administrative reporting line to the highest-ranking person in senior management, such as the chief executive officer, to support day-to-day activities and establish the *status* and authority necessary to ensure the results of the internal audit services are given due consideration.

Principle 9 Plan Strategically

The chief audit executive plans strategically to position the internal audit function to fulfill its mandate and achieve long-term success.

Planning strategically requires the chief audit executive to understand the internal audit mandate and the organization's governance, risk management, and control processes. A properly resourced and positioned internal audit function develops and implements a strategy to support the organization's success. In addition, the chief audit executive creates and implements methodologies to guide the internal audit function and develop the internal audit plan.

Standard 9.1 Understanding Governance, Risk Management, and Control Processes

Requirements

To develop an effective internal audit strategy and plan, the chief audit executive must understand the organization's governance, risk management, and control processes.

To understand governance processes, the chief audit executive must consider how the organization:

- Establishes strategic objectives and makes strategic and operational decisions.
- Oversees risk management and control.
- Promotes an ethical culture.
- Delivers effective performance management and accountability.
- Structures its management and operating functions.
- Communicates risk and control information throughout the organization.
- Coordinates activities and communications among the board, internal and external providers of assurance services, and management.

To understand risk management and control processes, the chief audit executive must consider how the organization identifies and assesses significant risks and selects appropriate control processes. This includes understanding how the organization identifies and manages the following key risk areas:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws and/or regulations.

Considerations for Implementation

The chief audit executive's understanding is developed by gathering information broadly and viewing it comprehensively. Sources of information include discussions with the board and senior management, reviews of board and senior management minutes and presentations, communications and workpapers from internal audit engagements, and assessments and reports completed by other providers of assurance and advisory services.

Understanding Governance Processes

The chief audit executive should be well informed about leading governance principles, globally accepted governance frameworks and models, and professional guidance specific to the industry and sector within which the organization operates. Based on this knowledge, the chief audit executive should identify whether any of these have been implemented in the organization and should gauge the maturity of the organization's governance processes. The organization's governance structure, processes, and practices may be affected by unique organizational characteristics such as its type, size, complexity, structure, and process maturity as well as the legal and/or regulatory requirements to which the organization is subject.

The chief audit executive may review board and committee charters and agendas and minutes from their meetings to gain additional insight into the role the board plays in the organization's governance, especially regarding strategic and operational decision-making.

The chief audit executive may speak with individuals in key governance roles (for example, the board chair, top elected or appointed official in a governmental organization, chief ethics officer, human resources officer, chief compliance officer, and chief risk officer) to gain a clearer understanding of the organization's processes and assurance activities. The chief audit executive may review the reports and/or results of previously completed governance reviews, paying particular attention to any identified concerns.

Understanding Risk Management Processes

The chief audit executive should understand globally accepted risk management principles, frameworks, and models as well as professional guidance specific to the industry and sector within which the organization operates. The chief audit executive should gather information to assess the maturity of the organization's risk management processes, including identifying whether the organization has defined its risk appetite and implemented a risk management strategy and/or framework. Discussions with the board and senior management help the chief audit executive understand their perspectives and priorities related to the organization's risk management.

To gather risk information, the chief audit executive should review recently completed risk assessments and related communications issued by senior and operational management, those charged with risk management, external auditors, regulators, and other internal and external providers of assurance services.

Understanding Control Processes

The chief audit executive should become familiar with globally accepted control frameworks and consider those used by the organization. For each identified organizational objective, the chief audit executive should develop and maintain a broad understanding of the organization's control processes and their effectiveness. The chief audit executive may develop an organizationwide risk and control matrix to:

- Document identified risks that may affect the ability to achieve organizational objectives.
- Indicate the relative significance of risks.
- Understand key controls in organizational processes.
- Understand which controls have been reviewed for design adequacy and deemed to be operating as intended.

A thorough understanding of the organization's governance, risk management, and control processes enables the chief audit executive to identify and prioritize opportunities to provide internal audit services that may enhance the organization's success. The identified opportunities form the basis of internal audit strategy and plan.

Examples of Evidence of Conformance

- Documentation of the chief audit executive's inquiry, gathering, review, and consideration of the governance, risk management, and control frameworks and processes used by the organization, including:
 - The organization's board and committee charters, which outline the governance expectations of the organization.
 - Assessment of laws, regulations, and other requirements related to governance, risk management, and control processes.

- Review of the agendas and minutes from board meetings documenting discussion of the organization's governance, risk management, and control processes, including the strategies, approaches, and oversight of each.
- Meeting minutes or notes from discussions between the chief audit executive and those in the organization with roles in governance and risk management.
- Review of the organization's risk appetite statement or documented communication with the board and senior management regarding the organization's risk appetite and risk tolerance.
- Documentation of orientation or training provided to internal audit staff regarding the organization's governance, risk management, and control processes.
- Review of business strategies and business plans.
- Review of communications received from regulators.
- Demonstrated understanding of the organization's risk and control matrix.

Standard 9.2 Internal Audit Strategy

Requirements

The chief audit executive must develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.

An internal audit strategy is a plan of action designed to achieve a long-term or overall objective. The internal audit strategy must include a vision, strategic objectives, and supporting initiatives for the internal audit function. An internal audit strategy helps guide the internal audit function toward the fulfillment of the internal audit mandate.

The chief audit executive must review the internal audit strategy with the board and senior management periodically.

Considerations for Implementation

To develop the vision and strategic objectives of the internal audit strategy, the chief audit executive should start by considering the organization's strategy and objectives and the expectations of the board and senior management. The chief audit executive also may consider the types of services to be performed and the expectations of other stakeholders served by the internal audit function, as agreed in the internal audit charter.

The vision describes the desired future state — in the next three to five years, for example — of the internal audit function and provides direction to help the function fulfill its mandate. The vision is also designed to inspire internal auditors to continuously improve. The strategic objectives define achievable targets to attain the vision. The supporting initiatives outline more specific tactics and steps for achieving each strategic objective.

One approach to developing a strategy is to identify and analyze the internal audit function's strengths, weaknesses, opportunities, and threats — an exercise designed to determine ways to improve the function. Another approach is to perform a gap analysis between the current and the desired states of the internal audit function.

The initiatives supporting the strategy should include:

- Opportunities to help internal auditors develop their competencies.
- The introduction and application of technology when it improves the internal audit function's efficiency and effectiveness.
- Opportunities to improve the internal audit function as a whole.

When the chief audit executive determines the strategic objectives and supporting initiatives, the actions to be taken should be prioritized and assigned target dates.

The internal audit strategy should be adjusted whenever changes occur in the organization's strategic objectives or stakeholders' expectations. Factors that may prompt a more frequent review of the internal audit strategy include:

- Changes in the organization's strategy or the maturity of its governance, risk management, and control processes.
- Changes in the organization's policies and procedures or the laws and/or regulations to which the organization is subject.
- Changes in members of the board, senior management, or the chief audit executive.
- Results of internal and external assessments of the internal audit function.

The chief audit executive may design a timeline for implementation of the internal audit strategy and related performance measures. (See also Standard 12.2 Performance Measurement.) A periodic review of the internal audit strategy should include a discussion of the internal audit function's progress on initiatives with the board and senior management.

Examples of Evidence of Conformance

- Documented internal audit strategy, including vision, strategic objectives, and supporting initiatives.
- Minutes or correspondence from meetings with the board, senior management, and/or other stakeholders where expectations were discussed.
- Notes showing the information and analyses that informed the strategy.
- Internal audit methodologies for producing and reviewing the internal audit strategy and monitoring its implementation.
- Results of periodic self-assessments or other reviews of the progress on initiatives.

Standard 9.3 Methodologies

Requirements

The chief audit executive must establish methodologies to guide the internal audit function in a systematic and disciplined manner to implement the internal audit strategy, develop the internal audit plan, and conform with the Standards. The chief audit executive must evaluate the effectiveness of the methodologies and update them as necessary to improve the internal audit function and respond to significant changes that affect the function. The chief audit executive must provide internal auditors with training on the methodologies. (See also Principles 13 Plan Engagements Effectively, 14 Conduct Engagement Work, and 15 Communicate Engagement Results and Monitor Action Plans, and their standards.)

Considerations for Implementation

The form, content, level of detail, and degree of documentation of methodologies may differ based on the size, structure, complexity, industry/regulatory expectations, and maturity of the organization and the internal audit function. Methodologies may exist as individual documents (such as standard operating procedures) or may be collected into an internal audit manual or integrated into internal audit management software. Internal audit methodologies supplement the Standards by providing specific instructions and criteria that help internal auditors implement the Standards and perform services with quality. Additionally, internal audit methodologies describe processes and procedures for communicating, handling operational and administrative matters, and overseeing the internal audit function. (See also Standards 14.3 Evaluation of Findings, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)

Documented methodologies that are most likely to be necessary to implement the strategy, achieve the internal audit plan, and conform with Standards include the internal audit function's approach to:

- Assessing risks for the organization and for each engagement.
- Developing and updating the internal audit plan.
- Determining the balance between assurance and advisory engagements.
- Coordinating with internal and external assurance providers.
- Managing external service providers, when used.
- Performing internal audit engagements.
- Communicating throughout internal audit services.
- Retaining and releasing engagement records and other information, consistent with the organization's guidelines and pertinent regulatory or other requirements.
- Monitoring and confirming the implementation of internal auditors' recommendations or management's action plans.
- Assuring the quality and improvement of the internal audit function.
- Developing performance measurements to assess progress toward meeting objectives.
- Performing additional services identified in the internal audit mandate.

The effectiveness of the internal audit methodologies should be reviewed during assessments of the internal audit function's quality. Reasons for updating established methodologies include significant changes in professional internal audit standards and guidance, legal and/or regulatory requirements, technology, and department size or composition. A change of the chief audit executive or board chairman may also warrant the review and revision of internal audit methodologies.

Examples of Evidence of Conformance

- Documentation of software program incorporating methodologies.
- Meeting agendas and minutes, emails, signed acknowledgments, training schedules, or similar documentation evidencing communications to internal audit personnel about internal audit methodologies.
- Documentation of quality reviews of audit work demonstrating that methodologies are followed.
- Footnotes or endnotes within the methodologies or internal audit manual citing the standard that the content is addressing.
- Documentation of updates to the methodologies.

Standard 9.4 Internal Audit Plan

Requirements

The chief audit executive must create an internal audit plan that supports the achievement of the organization's objectives.

The chief audit executive must base the internal audit plan on a documented assessment of the organization's strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive's understanding of the organization's governance, risk management, and control processes. The assessment must be performed at least annually.

The internal audit plan must:

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization's governance, risk management, and control processes.
- Consider coverage of information technology governance, fraud risk, the effectiveness of the organization's compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization's business, risks operations, programs, systems, controls, and organizational culture.

The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:

- The impact of any resource limitations on internal audit coverage.
- The rationale for not including an assurance engagement in a high-risk area or activity in the plan.
- Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
- Limitations on scope or restrictions on access to information.

The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.

Considerations for Implementation

This standard requires an organizationwide risk assessment to be completed at least annually as the basis for the plan. However, the chief audit executive should keep continuously apprised of risk information, updating the risk assessment and internal audit plan accordingly. If the organization's environment is dynamic, the internal audit plan may need to be updated as frequently as every six months, quarterly, or even monthly. The size, complexity, and type of changes occurring in the organization relative to the maturity of the organization's governance, risk management, and control processes should be considered when determining the appropriate level of effort to update the risk assessment.

One approach to preparing the internal audit plan is to organize potentially auditable units within the organization into an audit universe to facilitate the identification and assessment of risks. An audit universe is most useful when it is based on an understanding of the organization's objectives and strategic initiatives and aligned with the organization's structure or risk framework. Auditable units may include business units, processes, programs, and systems. The chief audit executive can link those organizational units to key risks in preparation for a comprehensive risk assessment and the identification of assurance coverage throughout the organization. This process enables the chief audit executive to prioritize the risks to be evaluated further during internal audit engagements.

To strive to ensure that the audit universe and risk assessment cover the organization's key risks, the internal audit function should independently review and validate the key risks that were identified within the organization's risk management system. The internal audit function should only rely on management's information about risks if it has concluded that the organization's risk management processes are effective.

To complete the organizationwide risk assessment, the chief audit executive should consider objectives and strategies not just at the broad organizational level but also at the level of specific auditable units. Additionally, the chief audit executive should give due consideration to risks – such as those related to ethics, fraud, information technology, third-party relationships, and noncompliance with regulatory requirements – that may be tied to more than one business unit or process and may require more complex evaluation.

To support this risk assessment, the chief audit executive may gather information from recently completed internal audit engagements as well as discussions with members of the board and senior management. (See also Standards 9.1 Understanding Governance, Risk Management, and Control Processes and 11.3 Communicating Results.) The chief audit executive may implement a methodology for continuously assessing risks. Risks should be considered not only in terms of negative effects and barriers to achieving objectives but also in terms of opportunities that enhance the organization's ability to achieve its objectives.

The chief audit executive should develop a process to identify and assess significant, new, and emerging risks that should be considered for coverage in the audit plan. For example, resource limitations may make it impossible for the internal audit function to assess every risk in the audit universe annually. In such cases, the chief audit executive may need to increase reliance on sources of risk information such as management's risk assessments, meetings with the board and senior management, and the results of previous engagements and other audit work.

To create the internal audit plan, the chief audit executive considers the level of risk identified across each of the auditable units relative to the known level of control effectiveness. Also influencing the internal audit plan are requests made by the board and senior management, the assurance coverage expected throughout the organization, engagements required by laws or regulations, and the internal audit function's ability to rely on the work of other assurance providers. The chief audit executive should plan to reevaluate reliance periodically.

When developing the internal audit plan, the chief audit executive should consider the following:

- Engagements required by laws or regulations.
- Engagements critical to the organization's mission or strategy.
- Areas and activities with significant levels of risk.
- Whether all significant risks have sufficient coverage by assurance providers.
- Advisory and ad hoc requests.
- The time and resources required for each potential engagement.
- Each engagement's potential benefits to the organization, such as the engagement's potential to contribute to the improvement of the organization's governance, risk management, and control processes.

To schedule internal audit engagements, the chief audit executive should consider:

- The organization's operational priorities.
- Schedule of external audit engagements and regulatory reviews.
- Competencies and availability of internal auditors.
- Ability to access the activity under review.

The proposed internal audit plan should include:

- The resources and hours available for engagements compared to other administrative and nonaudit activities or initiatives focused on improving the internal audit function.
- The list of proposed engagements and related analysis, specifying the degree to which the engagements are:
 - Assurance or advisory.
 - Focused on certain departments, units, or objectives of the organization.
 - Predominately addressing financial, compliance, operational, cybersecurity, or other objectives.

- The rationale for selecting each proposed engagement; for example, significance of risk, organizational theme or trend (root cause), regulatory requirement, or time since last engagement.
- General purpose and preliminary scope of each proposed engagement.
- A percentage of hours to be reserved for contingencies and ad hoc requests.
- The next set of engagements that would have been performed if additional resources were available. Discussion regarding these engagements may help the board assess the adequacy of resources available to the internal audit function.

The chief audit executive, the board, and senior management should agree upon the criteria that define the significant changes that require a revision of the audit plan. The agreed-upon criteria and protocol should be incorporated into the internal audit function's methodologies. Examples of significant changes include canceling or postponing engagements related to significant risks or critical strategic objectives. If risks arise that necessitate revisions to the plan before a formal discussion with the board can be scheduled, the board should be informed of the changes immediately, and a formal approval should occur as soon as possible.

Examples of Evidence of Conformance

- Approved internal audit plan.
- Documented risk assessment and prioritization, including the inputs upon which the plan is based.
- Minutes of meetings in which the chief audit executive discussed with the board and senior management the audit universe, organizationwide risk assessment, internal audit plan, and the criteria and protocol for handling significant changes to the plan.
- Notes documenting discussions to gather information to inform the organizationwide risk assessment and internal audit plan.
- Documented list of those to whom the internal audit plan was distributed.
- Documented methodologies for organizationwide risk assessment and protocol for handling significant changes.

Standard 9.5 Coordination and Reliance

Requirements

The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

If unable to achieve an appropriate level of coordination, the chief audit executive must raise any concerns with senior management and, if necessary, the board.

When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

Considerations for Implementation

The chief audit executive should develop a methodology for evaluating other providers of assurance and advisory services that includes a basis for relying upon their work. The evaluation should consider the providers' roles, responsibilities, organizational independence, competency, and objectivity, as well as the due professional care applied to their work. The chief audit executive should understand the objectives, scope, and results of the work performed.

The chief audit executive should identify the organization's assurance and advisory service providers by communicating with senior management and reviewing the organizational reporting structure and board meeting agendas or minutes. Internal providers of assurance and advice include functions that may report to or be part of senior management, such as compliance, environmental, financial control, health and safety, information security, legal, risk management, and quality assurance. External assurance providers may report to senior management, external stakeholders, or the chief audit executive.

Examples of coordination include:

- Synchronizing the nature, extent, and timing of planned work.
- Establishing a common understanding of assurance techniques, methods, and terminology.
- Providing access to one another's work programs and reports.
- Using management's risk management information to provide joint risk assessments.
- Creating a shared risk register or list of risks.
- Combining results for joint reporting.

The process of coordinating assurance activities varies by organization, from informal in small organizations to formal and complex in large or heavily regulated organizations. The chief audit executive considers the organization's confidentiality requirements before meeting with the various providers to gather the information necessary to coordinate services. Frequently, the providers share the objectives, scope, and timing of upcoming engagements and the results of prior engagements. The providers also discuss the potential for relying on one another's work.

One method to coordinate assurance coverage is to create an assurance map, or a matrix of the organization's risks and the internal and external providers of assurance services that cover those risks. The assurance map links identified significant risk categories with relevant sources of assurance and provides an evaluation of the level of assurance for each risk category. Because the map is comprehensive, it exposes gaps and duplications in assurance coverage, enabling the chief audit executive to evaluate the sufficiency of assurance services in each risk area. The results can be discussed with the other assurance providers so that the parties may reach an agreement about how to coordinate activities. In a combined assurance approach, the chief audit executive coordinates the internal audit function's assurance engagements with other assurance providers to reduce the frequency and redundancy of engagements, maximizing the efficiency of assurance coverage.

The chief audit executive may choose to rely on the work of other providers for various reasons, such as to assess specialty areas outside the internal audit function's expertise, to decrease the amount of testing needed to complete an engagement, and to enhance risk coverage beyond the resources of the internal audit function.

To determine whether the internal audit function may rely on the work of another provider, the methodology should consider the provider's:

- Potential or actual conflicts of interest and whether disclosures were made.
- Reporting relationships and the potential impacts of this arrangement.
- Relevance and validity of professional experience, qualifications, and certifications.
- Methodology and the due professional care applied in planning, supervising, documenting, and reviewing the work.
- Findings and conclusions and whether they are reasonable, based on sufficient, reliable, and relevant evidence.

After evaluating the work of another assurance provider, the chief audit executive may determine that the internal audit function cannot rely upon the work. Internal auditors may either retest the work and gather additional information or independently perform assurance services.

If the internal audit function intends to rely upon the work of another assurance provider on an ongoing or long-term basis, the parties should document the agreed-upon relationship and specifications for the assurance to be provided and the testing and evidence required to support the assurance.

Examples of Evidence of Conformance

- Communications regarding distinct assurance and advisory roles and responsibilities, which may be documented in the notes from meetings with individual providers of assurance and advisory services or in minutes of meetings with the board and senior management.
- Assurance maps and/or combined assurance plans that identify which provider is responsible for assurance services in each area.
- Documentation and implementation of the methodology to determine whether to rely on a provider's work.
- Documented agreements with other assurance providers confirming the specifications of the assurance work they will perform.

Principle 10 Manage Resources

The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.

Managing resources requires obtaining and deploying financial, human, and technological resources effectively. The chief audit executive needs to obtain the resources required to perform internal audit responsibilities and deploy the resources according to the methodologies established for the internal audit function.

Standard 10.1 Financial Resource Management

Requirements

The chief audit executive must manage the internal audit function's financial resources.

The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget includes the resources necessary for the function's operation, including training and acquisition of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior management.

Considerations for Implementation

The chief audit executive should follow the budget processes established by the organization. Whether the internal audit function is insourced or outsourced, an adequate budget should still be approved by the board.

Periodically, the chief audit executive should review the planned budget compared to the actual budget and analyze significant variances to determine whether adjustments are needed. The budget may include reserves for unexpected but necessary changes to the internal audit plan. If an audit function's budget is established within a larger budget managed by another department, business unit, or authority, the chief audit executive still should understand the funds allocated to the internal audit function, track spending, and monitor the sufficiency of the financial resources deployed in the internal audit function.

If significant additional resources are needed due to unforeseen circumstances, the chief audit executive should discuss the circumstances with the board and senior management promptly.

Examples of Evidence of Conformance

- Documentation of the internal audit plan against the budget, forecast, and actual expenses.
- Minutes of meetings in which the chief audit executive discussed the internal audit budget with the board and senior management.
- Board meeting minutes discussing the internal audit function's budget and approval.

Standard 10.2 Human Resources Management

Requirements

The chief audit executive must establish an approach to recruit, develop, and retain internal auditors who are qualified to successfully implement the internal audit strategy and achieve the internal audit plan.

The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. *Appropriate* refers to the mix of knowledge, skills, and abilities; *sufficient* refers to the quantity of resources; and *effective deployment* refers to assigning resources in a way that optimizes the achievement of the internal audit plan.

The chief audit executive must communicate with the board and senior management regarding the appropriateness and sufficiency of the internal audit function's human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the chief audit executive must determine how to obtain the resources or communicate timely to the board and senior management the impact of the limitations. (See also Standard 8.2 Resources.)

The chief audit executive must evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The chief audit executive must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring. (See also Standard 3.1 Competency.)

Considerations for Implementation

The structure and approach to resourcing the internal audit function should align with the internal audit charter and support the achievement of the internal audit function's strategy and implementation of the internal audit plan.

In formulating an approach for managing the internal audit function's human resources, the chief audit executive should:

- Consider organizational characteristics, such as structure and complexity, geographic complexities, diversity of cultures and languages, and volatility of the risk environment in which the organization operates.
- Consider the internal audit budget and the cost effectiveness and flexibility of various staffing approaches (for example, hiring an employee or contracting with an external service provider).
- Understand the options for obtaining the human resources needed to fulfill the internal audit charter and achieve the internal audit plan.
- Communicate with the board and senior management to agree upon an approach.
- Consider succession planning for the chief audit executive position including discussions with the board.

To support an approach for recruiting competent internal auditors, the chief audit executive should:

- Collaborate with the human resources function to develop job specifications or descriptions that align with Standard 3.1 Competency and relevant professional competency frameworks.
- Consider the benefits of recruiting internal auditors with diverse backgrounds, experiences, and perspectives and creating an inclusive work environment that allows for effective collaboration and sharing of diverse views.
- Participate in recruitment activities, such as job fairs, student events, professional networking opportunities, and interviews with prospective candidates for hire.

To develop and retain internal auditors, the chief audit executive should:

- Implement compensation, promotion, and recognition activities that support the achievement of the internal audit function's strategic objectives.
- Implement methodologies for training, evaluating performance, improving competencies, and promoting the professional development of internal auditors.
- Consider the human resources objectives of the internal audit function and the organization, such as cross-functional sharing of knowledge and succession planning.
- Cultivate an ethical, professional environment in which internal auditors are trained adequately and collaborate effectively. (See also Domain II: Ethics and Professionalism.)

To evaluate whether the human resources are appropriate and sufficient to achieve the internal audit plan, the chief audit executive should consider:

- The competencies of the internal auditors and the competencies needed to perform internal audit services.
- The nature and complexity of the services.
- The number of internal auditors and productive work hours available.
- Scheduling constraints, including the availability of internal auditors and the organization's information, people, and properties.
- The ability to rely on the work of other assurance providers. (See also Standard 9.5 Coordination and Reliance.)

In addition to competencies, the chief audit executive considers the timing or schedule of internal audit engagements, based on the schedules of individual internal auditors and the availability of staff responsible for the activity under review. If an engagement is scheduled to occur at a specific time, then the resources needed to complete that engagement should be available at that time.

If the resources are insufficient to cover the planned engagements, the chief audit executive may provide training for existing staff, request an expert from within the organization to serve as a guest auditor, hire additional staff, rely on other assurance providers, develop a rotational auditing program, or contract with an external service provider. External service providers may provide specialized skills, complete special projects, or perform engagements.

When the internal audit function is sourced internally, internal audit staffing may be supplemented by a rotational staffing model, whereby employees from other business units join the internal audit function temporarily and later return to the business unit. Employees transferring into the internal audit function may provide specialized skills and knowledge as well as unique perspectives and insights. Additionally, when employees transfer back into business units, their internal audit experiences contribute to a deeper understanding of the organization's governance, risk management, and control processes. When a rotational

model is used, the chief audit executive should be aware of potential impairments to objectivity and should implement related safeguards. (See also Standard 2.2 Safeguarding Objectivity.)

The internal audit methodology for supervising engagements should include sufficient opportunities for internal auditors to receive constructive feedback from more experienced internal auditors in supervisory roles; such feedback may be provided through written or oral comments in the supervisory reviews of workpapers and other communications. Mentorship programs offer on-the-job experiences through which less experienced internal auditors can follow and directly observe knowledgeable staff performing engagements. The ongoing monitoring and periodic self-evaluations that comprise the internal audit function's internal quality assessments provide additional opportunities for internal auditors to receive feedback and suggestions to increase their effectiveness. (See also Standard 12.1 Internal Quality Assessment.) Individual performance evaluations carried out at regular intervals, such as annually, are another source of input that can contribute to internal auditors' professional development.

The chief audit executive should follow the organization's human resources policies or, as in the public sector, follow regulatory or contractually driven human resources frameworks. In these cases, the chief audit executive should work to thoroughly understand the frameworks and optimize the job classifications, assessment processes, and other mandated human resources frameworks to support the internal audit function. The board and senior management should be advised when these mandated frameworks diminish the ability to fulfill the human resources needs of the internal audit function.

Examples of Evidence of Conformance *

- Documented analysis of gaps between competencies of internal auditors on staff and those required.
- Job descriptions.
- Résumés of internal auditors employed by the organization.
- Documented training plans and evidence of completed training.
- External service provider contracts and résumés of internal auditors assigned by the provider.
- The internal audit plan, with the estimated schedule of engagements and resources allocated.
- Meeting minutes documenting discussions regarding the internal audit budget.
- Post-engagement comparison of budgeted work hours to actual hours.
- Assessments of the performance of the internal audit function and individual internal auditors.

Standard 10.3 Technological Resources

Requirements

The chief audit executive must strive to ensure that the internal audit function has technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

When implementing new technology, the chief audit executive must implement appropriate training for internal auditors in the effective use of technological resources. The chief audit executive must collaborate with the organization's information technology and information security functions to implement technological resources properly.

The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.

Considerations for Implementation

The internal audit function should use technology to improve its effectiveness and efficiency. Examples of such technology include:

- Audit management systems.
- Governance, risk management, and control process mapping applications.
- Tools that assist with data science and analytics.
- Tools that assist with communication and collaboration.

To evaluate whether the internal audit function has technological resources to perform its responsibilities, the chief audit executive should:

- Assess the feasibility of acquiring and implementing technology enabled enhancements across the internal audit function's processes.
- Collaborate with other departments on shared governance, risk, and control management systems.
- Present sufficiently supported technology funding requests to the board and senior management for approval.
- Develop and implement plans to introduce approved technologies. Plans should include training internal auditors and demonstrating the realized benefits to the board and senior management.
- Identify and respond to the risks that arise from technology use, including those related to information security and privacy of individual data.

Examples of Evidence of Conformance

- Sections of the internal audit strategy describing current or planned initiatives for using technology to advance the internal audit function's objectives.
- Documented discussions or plans related to requests for and implementation of technologies.

- Records of technology implementation, training, and use, including workpapers evidencing use of technology during engagements.
- The names of internal auditors and their technology-related certifications and qualifications.
- Information security, records management, and other policies and procedures relevant to the internal audit function's use of technological resources.

Principle 11 Communicate Effectively

The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.

Effective communication requires building relationships, establishing trust, and enabling stakeholders to benefit from the results of internal audit services. The chief audit executive is responsible for helping the internal audit function establish ongoing communication with stakeholders to build trust and foster relationships. Additionally, the chief audit executive oversees the internal audit function's formal communications with the board and senior management to enable quality and provide insights based on the results of internal audit services.

Standard 11.1 Building Relationships and Communicating with Stakeholders

Requirements

The chief audit executive must develop an approach for the internal audit function to build relationships and trust with key stakeholders, including the board, senior management, operational management, regulators, and internal and external assurance providers and other consultants.

The chief audit executive must promote formal and informal communication between the internal audit function and stakeholders, contributing to the mutual understanding of:

- Organizational interests and concerns.
- Approaches for identifying and managing risks and providing assurance.
- Roles and responsibilities of relevant parties and opportunities for collaboration.
- Relevant regulatory requirements.
- Significant organizational processes, including financial reporting.

Considerations for Implementation

Regular, ongoing communication among the board, senior management, and the internal audit function contributes to a common understanding of the organization's risks and assurance priorities and promotes adaptability to changes. The chief audit executive should be included in the organization's communication channels to keep current with major developments and planned activities that could affect the objectives

and risks of the organization. The chief audit executive also should attend meetings with the board and key governance committees, as well as senior management and groups that report directly to senior management, such as compliance, risk management, and quality control.

In addition, the chief audit executive should discuss a methodology for communication with the board and senior management to determine the criteria defining significant issues requiring formal communication, the format and content of formal communication, and the frequency with which such communication should occur.

Meeting independently with individual senior executives and members of the board allows the chief audit executive to build relationships with them and learn about their concerns and perspectives. To better understand business objectives and processes, internal auditors should meet with key members of operational management, such as the heads of business units and employees who perform operational tasks. In certain highly regulated industries or sectors, meetings between the chief audit executive and external auditors and regulators may be appropriate.

The chief audit executive and internal auditors may initiate discussions with management and the board about strategies, objectives, and risks as well as industry news, trends, and regulatory changes. Such discussions, along with surveys, interviews, and group workshops, are useful tools for obtaining input, especially on fraud and emerging risks. Websites, newsletters, presentations, and other forms of communication can be effective methods for sharing the internal audit function's role and benefits with employees and other stakeholders.

The chief audit executive may delegate individual internal auditors to be responsible for maintaining ongoing communication with the management of key functions such as business segment leaders, global operations, information technology, finance, compliance, and human resources. (See also Standard 9.5 Coordination and Reliance.)

Communication should include opportunities for ongoing, informal interaction between internal auditors and the organization's employees. When informal interactions occur consistently, employees gain trust in internal auditors, increasing the likelihood of candid discussions that may not occur in formal meetings. As a part of relationship-building, informal interaction may enhance internal auditors' comprehensive understanding of the organization and its control environment. Rotating internal auditors into and out of assignments in specific business units or locations may balance the benefits of informal communication against the need to protect internal auditors' objectivity.

Examples of Evidence of Conformance

- Documentation of the internal audit function's plan for managing stakeholder relationships.
- Agendas or minutes from meetings among members of the internal audit function and stakeholders.
- Surveys, interviews, and group workshops through which internal auditors solicit input from internal stakeholders.
- Websites or web pages, newsletters, presentations, and other outlets through which the internal audit function communicates with stakeholders in the organization.

Standard 11.2 Effective Communication

Requirements

The chief audit executive must establish and implement methodologies to promote accurate, objective, clear, concise, constructive, complete, and timely internal audit communications.

Considerations for Implementation

Methodologies may include policies, criteria, style guides, and procedures to guide the internal audit function's communications and achieve consistency. Communication methodologies should consider the expectations of the board, senior management, and other relevant stakeholders. (See also Standards 9.3 Methodologies and 15.1 Final Engagement Communication.) The chief audit executive may provide communications training to internal auditors, such as training in writing or preparing presentations of final communications.

Methodologies, such as supervisory reviews, should enhance the degree to which engagement communications are:

- Accurate – free from errors and distortions and faithful to the underlying facts. When communicating, internal auditors should use precise terms and descriptions, supported by information gathered. Internal auditors also should consider other standards related to accuracy, including Standard 11.4 Errors and Omissions.
- Objective – impartial, unbiased, and the result of a fair and balanced assessment of all relevant facts and circumstances. Findings, conclusions, recommendations and/or action plans, and other results of internal audit services should be based on balanced assessments of relevant circumstances. Communications should focus on identifying factual information and linking the information to objectives. Internal auditors should avoid terms that may be perceived as biased. (See also Principle 2 Maintain Objectivity and its standards.)
- Clear – logical and easily understood by relevant stakeholders, avoiding unnecessary technical language. Clarity is increased when internal auditors use language that is consistent with terminology used in the organization and easily understood by the intended audience. Internal auditors should avoid unnecessary technical language and define important terms that are uncommon or used in a way that is specific or unique to the communication or presentation. Internal auditors improve the clarity of their communications by including significant details that support findings, conclusions, recommendations and/or action plans.
- Concise – succinct and free from unnecessary detail and wordiness. Internal auditors should avoid redundancies and exclude information that is unnecessary, insignificant, or unrelated to the engagement or service.
- Constructive – helpful to stakeholders and the organization and enabling improvement where needed. Internal auditors should express information with a cooperative and helpful tone that facilitates collaboration with the activity under review to determine opportunities for improvement.
- Complete – relevant, reliable, and sufficient information and evidence to support the results of internal audit services. Completeness enables the reader to reach the same conclusions as those reached by internal auditors. Internal auditors should adapt communications to meet the needs

of various recipients and consider the information they need to take the actions for which they are responsible. For example, communications to the board and senior management may differ from those delivered to the management of an activity under review.

- Timely – appropriately timed, according to the significance of the issue, allowing management to take corrective action. Timeliness may be different for each organization and depend upon the nature of the engagement.

The chief audit executive may establish key performance measures to monitor the effectiveness of internal audit communication, which can be used as part of the function's quality assurance and improvement program. (See also Standard 8.3 Quality, and Principle 12 Enhance Quality and its standards.)

Examples of Evidence of Conformance

- Style guides, templates, and other documented methodologies for effective communication.
- Records of participation in training or meetings on effective communication skills.
- Final communications and other documents approved by the chief audit executive, as well as supporting documents that demonstrate the characteristics of effective communications.
- Presentation slides or meeting minutes that demonstrate the characteristics of effective communications.
- Records demonstrating the timeliness of communications.
- Workpapers that demonstrate the characteristics of effective communications.
- Workpapers with supervisory review notes on improving communication effectiveness.
- Results of stakeholder surveys regarding the quality of internal audit communications.
- Results of quality assurance and improvement program.

Standard 11.3 Communicating Results

Requirements

The chief audit executive must communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate. The chief audit executive must understand the expectations of the board and senior management regarding the nature and timing of communications.

The results of internal audit services can include:

- Engagement conclusions.
- Themes such as effective practices or root causes.
- Conclusions at the level of the business unit or organization.

Engagement Conclusions

The chief audit executive must review and approve final engagement communications, which include engagement conclusions, and decide to whom and how they will be disseminated before they are issued. If these duties are delegated to other internal auditors, the chief audit executive retains overall responsibility. The chief audit executive must seek the advice of legal counsel and/or senior management as required before releasing final communications to parties outside the organization, unless otherwise required or restricted by laws and/or regulations. (See also Standards 11.4 Errors and Omissions, 11.5 Communicating the Acceptance of Risks, and 15.1 Final Engagement Communication.)

Themes

The findings and conclusions of multiple engagements, when viewed holistically, may reveal patterns or trends, such as root causes. When the chief audit executive identifies themes related to the organization's governance, risk management, and control processes, the themes must be communicated timely, along with insights, advice, and/or conclusions, to the board and senior management.

Conclusions at the Level of the Business Unit or Organization

The chief audit executive may be required to make a conclusion at the level of the business unit or organization about the effectiveness of governance, risk management, and/or control processes, due to industry requirements, laws and/or regulations, or the expectations of the board, senior management, and/or other stakeholders. Such a conclusion reflects the professional judgment of the chief audit executive based on multiple engagements and must be supported by relevant, reliable, and sufficient information.

When communicating such a conclusion to the board or senior management, the chief audit executive must include:

- A summary of the request.
- The criteria used as a basis for the conclusion, for example a governance framework or risk and control framework.
- The scope, including limitations and the period to which the conclusion pertains.
- A summary of the information that supports the conclusion.
- A disclosure of reliance on the work of other assurance providers, if any.

Considerations for Implementation

The results of internal audit services may be based on individual engagements, multiple engagements, and interactions with the board and senior management over time.

Engagement Conclusions

While Standard 13.1 Engagement Communication requires internal auditors to communicate throughout an engagement with those responsible for the activity under review, the chief audit executive is responsible for the dissemination of final engagement communications to the appropriate parties. Appropriate parties may include the board, senior management, and/or those responsible for developing and implementing management's action plans. (See also Standard 15.1 Final Engagement Communication.)

The chief audit executive should encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications. Examples of good practices identified across engagements may be transferable to other parts of the organization or serve as a benchmark throughout the organization.

Themes

Tracking the findings and conclusions of multiple engagements may enable the identification of trends, such as the improvement or worsening of conditions compared to criteria, a root cause underlying the conditions, or an opportunity to share a practice that increases effectiveness or efficiency. Such trends also may lead to additional engagements that focus on the theme across the organization.

Communications to the board and senior management should include:

- Significant control weaknesses and robust root cause analysis.
- Thematic or systemic issues, actions, or progress across multiple engagements or business units.

Insights obtained from other assurance providers should be considered when identifying themes. (See also Standard 9.5 Coordination and Reliance.)

Conclusions at the Level of the Business Unit or Organization

When communicating conclusions at the levels of the business unit or organization overall, the chief audit executive should consider how a conclusion relates to the strategies, objectives, and risks of the organization. The chief audit executive also should consider whether the conclusion solves a problem, adds value, and/or provides management or other stakeholders with confidence regarding an overall theme or condition.

The chief audit executive also considers the time period to which the conclusion relates and any scope limitations to determine which engagements would be relevant to the overall conclusion. All related engagements or projects are considered, including those completed by other internal and external assurance providers. (See also Standard 9.5 Coordination and Reliance.)

For example, an overall conclusion may be based on aggregate engagement conclusions at the organization's local, regional, and national levels, along with results reported from outside entities such as independent third parties or regulators. The scope statement provides context for the overall conclusion by specifying the time period, activities, limitations, and other variables that describe the conclusion's boundaries.

The chief audit executive should summarize the information on which the overall conclusion is based and identify the relevant risk or control frameworks or other criteria used as a basis for the overall conclusion. The chief audit executive should articulate how the overall conclusion relates to the strategies, objectives, and risks of the organization. Overall conclusions are usually communicated in writing but also may be provided orally.

Examples of Evidence of Conformance

- Final engagement communications, including engagement findings, recommendations, and conclusions.
- The chief audit executive's outline, meeting minutes, speaking notes, slides, or documents indicating communication with the board and senior management.
- Analyses including data reports, diagrams, and graphs showing trends.
- Relevant risk or control frameworks or other criteria used as a basis for the overall conclusion.

Standard 11.4 Errors and Omissions

Requirements

If a final engagement communication contains a significant error or omission, the chief audit executive must communicate corrected information promptly to all parties who received the original communication.

Significance is determined according to criteria agreed upon with the board.

Considerations for Implementation

The chief audit executive and the board should agree on a protocol for communicating the correction. To determine the significance, the chief audit executive should evaluate whether the mistaken or omitted information could have legal or regulatory consequences or change the findings, conclusions, recommendations, or management's action plans.

The chief audit executive determines the most appropriate method of communication so that the corrected information is received by all parties who received the original communication. In addition to communicating the corrected information, the chief audit executive should identify the cause of the error or omission and take corrective action to prevent a similar situation from occurring in the future.

Examples of Evidence of Conformance

- Internal audit methodologies for handling errors and omissions.
- Criteria agreed upon with the board and used by the chief audit executive to determine the level of significance.
- Correspondence and other records showing how the chief audit executive determined the significance and cause of the error or omission.
- The chief audit executive's calendar, board or other meeting minutes, memos, and email correspondence where an error or omission was discussed.
- The original and corrected final communication documents.
- Documentation that relevant parties received the corrected communications.

Standard 11.5 Communicating the Acceptance of Risks

Requirements

The chief audit executive must communicate unacceptable levels of risk.

When the chief audit executive concludes that management has accepted a level of risk that exceeds the organization's risk appetite or risk tolerance, the matter must be discussed with senior management. If the chief audit executive determines that the matter has not been resolved by senior management, the matter must be escalated to the board. It is not the responsibility of the chief audit executive to resolve the risk.

Considerations for Implementation

The chief audit executive gains an understanding of the organization's risks and risk tolerance through discussions with the board and senior management, relationships and ongoing communication with stakeholders, and the results of internal audit services. (See also Standards 8.1 Board Interaction; 9.1 Understanding Governance, Risk Management, and Control Processes; and 11.1 Building Relationships and Communicating with Stakeholders.) This understanding provides the chief audit executive with perspective about the level of risk the organization considers acceptable. If the organization has a formal risk management process, the chief audit executive should understand management's policies for acceptance of risk.

The chief audit executive may discuss and seek the board's agreement on methodologies for documenting and communicating the acceptance of risks that exceed the risk appetite or risk tolerance. In addition to the requirements in the Standards, methodologies should consider the organization's risk management process, policies, and procedures. The risk management process may include a preferred approach to communicating significant risk issues. Specifications may include the timeliness of communicating, the hierarchy of reporting, and requirements for consultation with the organization's legal counsel or head of compliance. The internal audit methodology also should include procedures for documenting the discussions and actions taken, including a description of risk, the reason for concern, management's reason for not implementing internal auditors' recommendations or other actions, the name of the individual responsible for accepting the risk, and the date of discussion.

The chief audit executive may become aware that management has accepted a risk by reviewing management's response to engagement findings and monitoring management's progress to implement recommendations and action plans. Building relationships and maintaining communication with stakeholders are additional means of remaining apprised of risk management activities including management's acceptance of risk.

When risks exceed the risk appetite, impacts may include:

- Harm to the organization's reputation.
- Harm to the organization's employees or other stakeholders.
- Significant regulatory fines, limitations on business conduct, or other financial or contractual penalties.
- Material misstatements.
- Conflicts of interest, fraud, or other illegal acts.
- Significant impediments to achieving strategic objectives.

The chief audit executive's professional judgment contributes to the determination of whether management has accepted a level of risk that exceeds the risk appetite or risk tolerance. For example, if management has made insufficient progress on action plans, the chief audit executive may conclude that management has accepted a level of risk that exceeds the risk appetite or risk tolerance. Before escalating a concern to the board and/or senior management, the chief audit executive should address the issue directly with the management responsible for the risk area to share concerns, understand management's perspective, and agree on an updated action plan.

The requirements of this standard are only implemented when the chief audit executive cannot reach agreement with the management responsible for managing the risk. If the risk identified as unacceptable remains unresolved after a discussion with senior management, the chief audit executive escalates the concern to the board. The board is responsible for deciding how to address the concern with management.

Examples of Evidence of Conformance

- Documentation of discussions and agreement with the board on methodologies for communicating risk concerns.
- Documentation of discussions about the risk and actions recommended to operational management and senior management, including minutes of meetings.
- Documentation explaining the risk concern and internal audit actions taken to address the concern, including the process of escalating the discussion from operational management to senior management.
- Documentation from meetings with the board, including private or closed sessions during which the concern was escalated to the board.

Principle 12 Enhance Quality

The chief audit executive is responsible for the internal audit function's conformance with the Global Internal Audit Standards and continuous performance improvement.

Quality is a combined measure of conformance with the Global Internal Audit Standards and the achievement of the internal audit function's performance objectives. Therefore, a quality assurance and improvement program is designed to evaluate and promote the internal audit function's conformance with the Standards, achievement of performance objectives, and pursuit of continuous improvement. The program includes internal and external assessments. (See also Standards 8.3 Quality and 8.4 External Quality Assessment.)

The chief audit executive is responsible for ensuring that the internal audit function is continuously seeking improvement. This requires developing measures to assess the performance of internal audit engagements, internal auditors, and the internal audit function. These measures form the basis for evaluating progress toward performance objectives including continuous improvement.

Standard 12.1 Internal Quality Assessment

Requirements

The chief audit executive must develop and conduct internal assessments of the internal audit function's conformance with the Global Internal Audit Standards and progress toward performance objectives.

The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3 Quality, that includes:

- Ongoing monitoring of the internal audit function's conformance with the Standards and progress toward performance objectives.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards.
- Communication with the board and senior management about the results of internal assessments.

Based on the results of periodic self-assessments, the chief audit executive must develop action plans to address instances of nonconformance with the Standards and opportunities for improvement, including a proposed timeline for actions. The chief audit executive must communicate the results of periodic self-assessments and action plans to the board and senior management. (See also Standards 8.1 Board Interaction, 8.3 Quality, and 9.3 Methodologies.)

Internal assessments must be documented and included in the evaluation conducted by an independent third party as part of the organization's external quality assessment. (See also Standard 8.4 External Quality Assessment.)

If nonconformance with the Standards affects the overall scope or operation of the internal audit function, the chief audit executive must disclose to the board and senior management the nonconformance and its impact.

Considerations for Implementation

Ongoing Monitoring

Ongoing monitoring involves the day-to-day supervision, review, and measurement of the internal audit function. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit function and includes the processes, tools, and information necessary to evaluate conformance with the Standards.

The internal audit function's progress toward performance objectives and conformance with the Standards is monitored primarily through methodologies such as supervisory reviews of engagement planning, workpapers, and final communications. These methodologies enable the identification of weaknesses or areas in need of improvement and action plans to address them. The chief audit executive may develop templates or automated workpapers for internal auditors to use throughout engagements to promote standardization and consistency in the application of the work practices.

Adequate engagement supervision is a fundamental element of a quality assurance and improvement program. Supervision begins with planning and continues throughout the engagement. Supervision may include setting expectations, encouraging communications among team members throughout the engagement, and reviewing and signing off on workpapers timely. (See also Standard 12.3 *Oversee and Improve Engagement Performance*.)

Additional mechanisms commonly used for ongoing monitoring include:

- Checklists or automated tools to provide assurance on internal auditors' compliance with established methodologies and to facilitate consistent performance of internal audit services in conformance with the Standards. These may be especially important for use in internal audit functions with limited staff resources for supervision.
- Feedback from internal audit stakeholders regarding the efficiency and effectiveness of the internal audit team. Feedback may be solicited immediately after the engagement or periodically (for example, semi-annually or annually) through survey tools or discussions between the chief audit executive and management.
- Other measurements that may be valuable in determining the efficiency and effectiveness of the internal audit function include metrics indicating the adequacy of resource allocation (such as budget-to-actual variance), the timeliness of engagement completion, the achievement of the internal audit plan, and surveys of stakeholder satisfaction.

In addition to validating conformance with the Standards, ongoing monitoring may identify opportunities to improve the internal audit function. In such cases, the chief audit executive may address these opportunities by developing an action plan.

Periodic Self-assessments

Periodic self-assessments provide a more holistic, comprehensive review of the Standards and the internal audit function. Periodic self-assessments address conformance with every standard, whereas ongoing monitoring may focus on the standards relevant to performing engagements. Periodic self-assessments may be conducted by senior members of the internal audit function, a dedicated quality assurance team, individuals within the internal audit function who have attained the Certified Internal Auditor® designation or have extensive experience with the Standards, or individuals with audit competencies from elsewhere in the organization. The chief audit executive should consider including internal auditors in the periodic self-assessment process to improve their understanding of the Standards.

Periodic self-assessments enable the internal audit function to validate its conformance with the Standards. When a periodic self-assessment is performed shortly before an external assessment, the time and effort required to complete the external assessment may be reduced.

Periodic self-assessments evaluate:

- The adequacy of the internal audit function's methodologies.
- How well the internal audit function supports the achievement of the organization's objectives.
- The quality of internal audit services performed and supervision provided.
- The degree to which stakeholder expectations are met and performance objectives are achieved.

The individual or team conducting the periodic self-assessment evaluates the internal audit function's conformance against each standard and may interview and survey the internal audit function's stakeholders. Through this process, the chief audit executive can assess the quality of and adherence to the internal audit function's methodologies.

Examples of Evidence of Conformance

- Completed checklists that support workpaper reviews, survey results, and performance measures related to the efficiency and effectiveness of the internal audit function.
- Documentation of completed periodic assessments including the plan, workpapers, and communications.
- Presentations to the board and management and meeting minutes covering the results of internal assessments.
- Documented results of ongoing monitoring and periodic self-assessments, including corrective action plans.
- Actions taken to improve the internal audit function's efficiency, effectiveness, and conformance with the Standards.

Standard 12.2 Performance Measurement

Requirements

The chief audit executive must develop objectives to evaluate the internal audit function's performance. The chief audit executive must consider the input and expectations of the board and senior management when developing the performance objectives.

The chief audit executive must develop a performance measurement methodology to assess progress toward achieving the function's objectives and to promote the continuous improvement of the internal audit function.

When assessing the internal audit function's performance, the chief audit executive must solicit feedback from the board and senior management as appropriate.

The chief audit executive must develop an action plan to address issues and opportunities for improvement.

Considerations for Implementation

The establishment of performance objectives is critical to determining whether an internal audit function is fulfilling its mandate in conformance with the Standards and achieving improvement in accordance with the function's strategy.

Establishment of performance objectives should take into consideration the desired outcomes articulated within:

- The Principles of the Global Internal Audit Standards.
- The internal audit charter.
- The internal audit function's strategy.

The chief audit executive may identify a set of focused performance objectives that are reported to the board and senior management while maintaining a more comprehensive set of performance objectives for managing the internal audit function. Care should be taken to identify performance objectives that advance desired outcomes and are balanced across outcome areas: stakeholder expectations, extent of business unit or organization conclusions, human resources needs, financial and operational efficiency, and learning and development.

After identifying the performance objectives, the chief audit executive should establish targets, both quantitative and qualitative, to track progress toward meeting the performance objectives. The chief audit executive should have a methodology in place to periodically validate the accuracy of the measures being reported and raise performance expectations.

The action plans to address issues and opportunities to achieve performance objectives should be tracked by the chief audit executive and communicated with the board and senior management. Examples of performance categories to consider when establishing performance objectives and measures may include:

- Coverage of engagement objectives expected to be reviewed according to the internal audit mandate.
- The extent to which the internal audit conclusions at the level of the business unit or organization address significant objectives of the organization. (See also Standard 11.3 Communicating Results.)
- The percentage of recommendations or action plans completed by management that result in desired outcomes, as monitored by the internal audit function. This measure is not exclusively a reflection of the internal audit function's performance. While internal audit functions may track the implementation of recommendations or action plans, management is responsible for completing such actions and ensuring that desired outcomes are achieved. (See also Standard 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Percentage of the organization's key risks and controls reviewed.
- Stakeholder satisfaction regarding understanding of engagement objectives, timeliness of engagement work, and clarity of engagement conclusions.
- Percentage of internal audit plan (as adjusted and approved) completed on time.
- Balance of assurance and advisory engagements in the internal audit plan relative to the internal audit strategy.
- External quality assurance reviews confirming internal audit function conformance with the Standards.
- Quality assurance reviews confirming that adequate competencies are in place to perform the scheduled internal audit engagements.
- Internal auditor learning and development plans linked to the internal audit strategy and the organization's developing risks.
- Staff holding at least one recognizable professional certification relevant to internal auditing.

Examples of Evidence of Conformance

- Performance objectives identified as most impactful to the internal audit function fulfilling the Principles of the Standards, the internal audit charter, and the internal audit function's strategy.
- Performance measures that address the tracked performance objectives and respective targets for those measures.
- Action plans for identified issues and opportunities to achieve the identified performance objectives.

Standard 12.3 Oversee and Improve Engagement Performance

Requirements

The chief audit executive must establish and implement methodologies for engagement supervision, quality assurance, and the development of competencies.

- The chief audit executive or an engagement supervisor must provide internal auditors with guidance throughout the engagement, verify work programs are complete, and confirm engagement workpapers adequately support findings, conclusions, and recommendations.
- To assure quality, the chief audit executive must verify whether engagements are performed in conformance with the Standards and the internal audit function's methodologies.
- To develop competencies, the chief audit executive must provide internal auditors with feedback about their performance and opportunities for improvement.

The extent of supervision required depends on the maturity of the internal audit function, the proficiency and experience of internal auditors, and the complexity of engagements.

The chief audit executive is responsible for supervising engagements, whether the engagement work is performed by the internal audit staff or by other service providers. Supervisory responsibilities may be delegated to appropriate and qualified individuals, but the chief audit executive retains ultimate responsibility.

The chief audit executive must ensure that evidence of supervision is documented and retained, according to the internal audit function's established methodologies.

Considerations for Implementation

When planning engagements, the chief audit executive or a designated engagement supervisor should review the engagement objectives. Supervision may include opportunities for staff development, such as post-engagement meetings between the internal auditors who performed the engagement and the chief audit executive.

Assessing the skills of the internal audit staff is an ongoing process extending beyond reviewing engagement workpapers. Based on the results of skill assessments, the chief audit executive may identify which internal auditors are qualified to supervise engagements and assign tasks accordingly.

During the planning phase, the engagement supervisor approves the engagement work program and may assume responsibility for other aspects of the engagement. (See also Principle 13 Plan Engagements Effectively and its standards.)

The primary criterion for approval of the work program is whether it achieves the engagement objectives efficiently. The work program includes procedures for identifying, analyzing, evaluating, and documenting engagement information. Engagement supervision also involves monitoring that the work program is completed and approving changes to the work program.

The engagement supervisor should maintain ongoing communication with the internal auditors assigned to perform the engagement and the management of the activity under review. The engagement supervisor reviews the engagement workpapers, which describe the audit procedures performed, the information identified, and the findings and preliminary conclusions made during the engagement. The supervisor evaluates whether the information, testing, and resulting evidence are relevant, reliable, and sufficient to achieve the engagement objectives and support the engagement conclusions. In internal audit functions that do not have individual auditors for supervision and ongoing monitoring, the chief audit executive may consider the use of tools such as checklists or other automated tools to assist in overseeing conformance with the Standards in each engagement.

Standard 11.2 Effective Communication requires that engagement communications be accurate, objective, clear, concise, constructive, complete, and timely. An engagement supervisor reviews engagement communications and workpapers for these elements because workpapers provide the primary support for engagement communications.

Throughout the engagement, the engagement supervisor and/or chief audit executive meet with the internal auditors assigned to perform the engagement and discuss the engagement process, which provides opportunities to train, develop, and evaluate the internal auditors. A supervisor may ask for additional evidence or clarification when reviewing the engagement communications and workpapers. Internal auditors may be able to improve their work by answering questions posed by the engagement supervisor.

Usually, the supervisor's review notes are cleared from the final documentation once adequate evidence has been provided or workpapers have been amended with additional information that addresses the supervisor's concerns and questions. Alternatively, the internal audit function may retain a separate record of the supervisor's review notes, the steps taken to resolve them, and the results of those steps.

The chief audit executive is responsible for all internal audit engagements and significant professional judgments made throughout the engagements, regardless of whether the work was performed by the internal audit function or other assurance providers. The chief audit executive develops methodologies to minimize the risk that internal auditors will make judgments or take actions that are inconsistent with the chief audit executive's professional judgment and may adversely affect the engagement. The chief audit executive establishes a means to resolve any professional judgment differences. This may include discussing pertinent facts, pursuing additional inquiry or research, and documenting differing viewpoints in engagement workpapers as well as any conclusions. If there is a difference in professional judgment over an ethical issue, the issue may be referred to individuals in the organization who are responsible for ethical matters.

Examples of Evidence of Conformance

- Engagement workpapers with documentation of supervision.
- Completed checklists that support workpaper reviews.
- Interview and survey results that include feedback about the engagement experience from internal auditors and other individuals directly involved with the engagement.
- Documentation of communication between engagement supervisor and staff internal auditors regarding the engagement work.

Domain V: Performing Internal Audit Services



Performing internal audit services requires internal auditors to effectively plan engagements, conduct the engagement work to develop findings and conclusions, collaborate with management to identify recommendations and/or action plans that address the findings, and communicate with management and the employees responsible for the activity under review throughout the engagement and after it closes.

Although the standards for performing engagements are presented in a sequence, the steps in performing engagements are not always distinct, linear, and sequential. In practice, the order in which steps are performed may vary by engagement and have overlapping and iterative aspects. For example, engagement planning includes gathering information and assessing risks, which may continue throughout the engagement. Each step may affect another or the engagement as a whole. Therefore, internal auditors should review and understand all standards in this domain before beginning an engagement.

Internal audit services involve providing assurance, advice, or both. Internal auditors are expected to apply and conform with the Standards when performing engagements, whether they are providing assurance or advice, except when otherwise specified in individual standards.

Assurance services are intended to provide confidence about governance, risk management, and control processes to the organization's stakeholders, especially the board, senior management, and the management of the activity under review. Through assurance services, internal auditors provide objective assessments of the differences between the existing conditions of an activity under review and a set of evaluation criteria. Internal auditors evaluate the differences to determine whether there are reportable findings and to provide a conclusion about the engagement results, including reporting when processes are effective.

Internal auditors may initiate advisory services or perform them at the request of the board, senior management, or the management of an activity. The nature and scope of advisory services may be subject to agreement with the party requesting the services. Examples of advisory services include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. When performing advisory services, internal auditors are expected to maintain objectivity by not taking on management responsibility. For example, internal auditors may perform advisory services as individual engagements, but if the chief audit executive takes on responsibilities beyond internal auditing, then appropriate safeguards must be implemented to maintain the internal audit function's independence. (See also Standard 7.1 Organizational Independence.)

Internal audit services are performed as described in the chief audit executive's established methodologies. (See also Standard 9.3 Methodologies.) The chief audit executive may delegate appropriate responsibility to other qualified professionals in the internal audit function but retains ultimate accountability.

Principle 13 Plan Engagements Effectively

Internal auditors plan each engagement using a systematic, disciplined approach.

The Global Internal Audit Standards, along with the methodologies established by the chief audit executive, form the foundation of internal auditors' systematic, disciplined approach to planning engagements. Internal auditors are responsible for effectively communicating at all stages of the engagement.

Engagement planning starts with understanding the initial expectations for the engagement and the reason the engagement was included in the internal audit plan. When planning engagements, internal auditors gather the information that enables them to understand the organization and the activity under review and to assess the risks relevant to the activity. The engagement risk assessment allows internal auditors to identify and prioritize the risks to determine the engagement objectives and scope. Internal auditors also identify the criteria and resources needed to perform the engagement and develop an engagement work program, which describes the specific engagement steps to be performed.

Standard 13.1 Engagement Communication

Requirements

Internal auditors must communicate effectively throughout the engagement. (See also Principle 11 Communicate Effectively and its related standards and Standard 15.1 Final Engagement Communication.)

Internal auditors must communicate the objectives, scope, and timing of the engagement with management. Subsequent changes must be communicated with management timely. (See also Standard 13.3 Engagement Objectives and Scope.)

At the end of an engagement, if internal auditors and management do not agree on the engagement results, internal auditors must discuss and try to reach a mutual understanding of the issue with the management of the activity under review. If a mutual understanding cannot be reached, internal auditors must not be obligated to change any portion of the engagement results unless there is a valid reason to do so. Internal auditors must follow an established methodology to allow both parties to express their positions regarding the content of the final engagement communication and the reasons for any differences of opinion regarding the engagement results. (See also Standards 9.3 Methodologies and 14.4 Recommendations and Action Plans.)

Considerations for Implementation

Engagement communications may include initial, ongoing, closing, and final communications with the management of the activity under review. The type of engagement may affect the communications needed. To ensure effective communication, a variety of methods should be used: formal, informal, written, and oral. Engagement communications may occur through scheduled meetings, presentations, emails and other

documents, and informal discussions. Requirements for the quality and content of engagement communications should be established by the chief audit executive in alignment with the expectations of the board and senior management and documented in internal audit methodologies. (See also Standards 9.3 Methodologies and 11.2 Effective Communication.)

The extent of ongoing communication depends upon the nature and length of the engagement and may include:

- Announcing the engagement.
- Discussing the engagement risk assessment, objectives, scope, and timing.
- Requesting the information and resources necessary to perform the engagement.
- Setting expectations for additional engagement communications.
- Providing updates about the engagement progress, including governance, risk management, or control issues that require immediate attention and changes to the scope, objectives, timing, or length of the engagement.
- The engagement results, including findings, recommendations, and/or management's action plans to address the findings.
- The timing of and owner responsible for implementing recommendations and/or action plans.

Internal auditors should give advance notice of the engagement to the appropriate stakeholders, typically including management and relevant staff, to set the foundation for cooperation and open dialogue. Internal auditors should follow the policy established by the chief audit executive to determine the timing and type of notice given. The announcement should inform management about the reason for the review. It should also inform management of the proposed starting time and the approximate duration of the engagement to plan a schedule that does not conflict with other significant events occurring in the activity under review. Additionally, internal auditors should request the information and documentation needed to assess risks and begin developing the work program.

Another common initial communication is an opening or entrance meeting. When internal auditors have conducted an engagement risk assessment, they should communicate the results to the management of the activity under review. They also should communicate the initial engagement objectives and scope, preferably in a meeting. This discussion provides an opportunity for internal auditors to confirm that the management of the activity under review understands and supports the objectives, scope, and timing of the engagement. The discussion allows the parties to make any necessary adjustments to the engagement approach and establish the expectations for additional communication, including the frequency of communication and who will receive the final communication. Internal auditors should document this discussion in the engagement workpapers.

Ongoing communication throughout the engagement between internal auditors and the management of the activity under review is essential for transmitting information that requires immediate attention and updating relevant parties about engagement progress or changes to the objectives or scope. This ongoing communication provides transparency and helps internal auditors and the management of the activity identify and resolve any misunderstandings or differences.

Depending on the type of engagement, internal auditors may have a closing communication (also called an "exit conference"), which is an opportunity for internal auditors, the management of the activity under review, and relevant staff to finalize the engagement results before issuing a final communication. The closing communication provides an opportunity for management and internal auditors to discuss any differences or disagreements about the engagement results with a goal of reaching agreement.

Discussing the feasibility of internal auditors' recommendations or management's action plans may include weighing the costs, such as the severity of the risk compared to the benefits of implementing the recommendations or action plans. (See also Standard 14.4 Recommendations and Action Plans.) Management action plans may not be fully developed before the closing communication, but management may have ideas about the actions it will take to address the findings. Even if management has not completely developed action plans, ideas can be discussed and evaluated. After the discussion, management can confirm its action plans, the expected timing of implementation, and the personnel responsible for implementing the actions.

Examples of Evidence of Conformance

- Documentation (emails, meeting minutes, notes, or memos) showing that the required communications occurred throughout the engagement.
- Documentation of feedback received (such as through surveys) from the management of the activity under review.

Standard 13.2 Engagement Risk Assessment

Requirements

Internal auditors must develop an understanding of the activity under review to assess the relevant risks. For advisory services, a formal, documented risk assessment may not be necessary, depending on the agreement with relevant stakeholders.

To develop an adequate understanding, internal auditors must identify and gather reliable, relevant, and sufficient information regarding:

- The organization's strategies, objectives, and risks relevant to the activity under review.
- The organization's risk tolerance, if established.
- The risk assessment supporting the internal audit plan.
- The governance, risk management, and control processes of the activity under review.
- Applicable frameworks, guidance, and other criteria that can be used to evaluate the effectiveness of those processes.

Internal auditors must review the gathered information to understand how processes are intended to operate.

Internal auditors must identify the risks to review by:

- Identifying the potentially significant risks to the objectives of the activity under review.
- Considering specific risks related to fraud.
- Evaluating the significance of the risks and prioritizing them for review.

Internal auditors must identify the criteria that management uses to measure whether the activity is achieving its objectives.

When internal auditors have identified the relevant risks for an activity under review in past engagements, only a review and update of the previous engagement risk assessment is required.

Considerations for Implementation

Internal auditors should consult with the engagement supervisor while planning.

To develop an understanding of the activity under review and assess relevant risks, internal auditors should start by understanding the internal audit plan, the discussions that led to its development, and the reason the engagement was included. Engagements included in the internal audit plan may arise from the internal audit function's organizationwide risk assessment or from stakeholder requests.

When internal auditors begin an engagement, they should consider the risks applicable to the engagement and inquire whether any changes have occurred since the internal audit plan was developed. Reviewing the organizationwide risk assessment and any other risk assessments recently conducted (such as those completed by management) may help internal auditors identify risks relevant to the activity under review. Internal auditors should understand any stakeholder expectations that exist regarding the purpose, objectives, and scope of the engagement.

Internal auditors should examine the alignment between the organization and the activity under review. Internal auditors gather and consider the information about the organization's strategies and processes for governance, risk management, and control processes, as well as the organization's objectives, policies, and procedures. Internal auditors should consider how these aspects of the organization relate to the activity under review and to the engagement as they begin to develop the engagement risk assessment.

To gather information, internal auditors may:

- Review risk assessments recently conducted by the internal audit function, management, or external service providers. The objectives considered should include those related to compliance, financial reporting, operations or performance, fraud, information technology, strategy, and internal audit plans.
- Review communications of engagements previously performed by the internal audit function and other assurance and advisory service providers, such as financial, environmental, social responsibility, and governance.
- Review workpapers from previous engagements.
- Review reference materials, including authoritative guidance from The IIA and other bodies, laws, and regulations relevant to the organization's sector, industry, and jurisdiction.
- Consider the risk categories of the organization, including strategic, operational, financial, and compliance.
- Consider the risk tolerance, if it has been defined.
- Use organizational charts and job descriptions to determine who is responsible for relevant information, processes, and other aspects of the activity under review.
- Inspect physical property of the activity under review.
- Examine documentation from the information owner or outside sources, including management's policies, procedures, flowcharts, and reports.
- Examine websites, databases, and systems.
- Inquire through interviews, discussions, or surveys.
- Observe a process in action.
- Meet with other assurance and advisory service providers.

Surveys, interviews, physical inspections, and process walk-throughs allow internal auditors to observe the current conditions in the activity under review.

To perform the engagement risk assessment, internal auditors use the gathered information to understand and document the objectives of the activity under review, the risks that could affect the achievement of each objective, and the controls intended to manage each risk. (See also Standard 14.6 Engagement Documentation.)

Internal auditors may create a chart, spreadsheet, risk and control matrix, process narrative, or other tool to document the risks and the controls designed to manage these risks. Such documentation enables internal auditors to apply professional judgment, experience, and logic to consider the information gathered in the context of the activity under review and to estimate the significance of the risks in terms of a combination of impact, likelihood, and possibly other risk factors.

Determining the significance of risks requires internal auditors to apply their knowledge, experience, and critical thinking to make judgments about the organization, the activity under review, and the engagement purpose and context. As part of due professional care, internal auditors should consider input from the management of the activity under review to gain insight into the business objectives, significant risks, and controls. Establishing a mutual understanding of the risks of the activity under review increases the usefulness of the engagement risk assessment.

The risks to be addressed during the engagement should be prioritized according to significance. This is often illustrated by plotting the risks on a graph, such as a heat map, based on the likelihood of the risk occurring and its potential impact. Such documentation should be retained as part of the engagement workpapers. For the most significant risks, assessing the adequacy of the design of the controls helps internal auditors determine which controls to continue testing for operating effectiveness.

When used, a risk and control matrix is typically developed throughout the engagement. As the engagement progresses through the testing phase, the matrix may be used to document the risk event, control and its type (that is, preventive, detective, directive, or corrective), cause, effect (consequence), and assessment of residual risk.

Examples of Evidence of Conformance

Workpapers documenting:

- Relevant organizational strategies, objectives, and risks of the organization.
- Objectives of the activity being reviewed.
- Governance, risk management, and control processes of the activity under review.
- Organizational charts and job descriptions.
- Notes and/or photographs from direct observation or inspection.
- Policies and procedures for the activity.
- Relevant laws and/or regulations and documented compliance assessments.
- Relevant information gathered from websites, databases, and systems.
- Notes from interviews, discussions, or surveys.
- Relevant information from previously completed risk assessments and engagements and the work of other assurance providers.
- Each risk's significance and the adequacy of the control design.

Standard 13.3 Engagement Objectives and Scope

Requirements

Internal auditors must establish and document the objectives and scope for each engagement.

The engagement objectives must articulate the purpose of the engagement and describe the specific goals to be achieved, including those mandated by laws and/or regulations.

The scope must establish the engagement's focus and boundaries by specifying the activities, locations, processes, systems, components, time period to be covered in the engagement, and other elements to be reviewed, and be sufficient to achieve the engagement objectives.

Internal auditors must consider whether the engagement is intended to provide assurance or advisory services because stakeholder expectations and the requirements of the Standards differ depending on the type of engagement.

Scope limitations must be discussed with management when identified, with a goal of achieving resolution. Scope limitations are assurance engagement conditions, such as resource constraints or restrictions on access to personnel, facilities, data, and information, that prevent internal auditors from performing the work as expected in the audit work program. (See also Standard 13.5 Engagement Resources.)

If a resolution cannot be achieved with management, the chief audit executive must elevate the scope limitation issue to the board according to an established methodology.

Internal auditors must have the flexibility to make changes to the engagement objectives and scope when audit work identifies the need to do so as the engagement progresses.

The chief audit executive must approve the engagement objectives and scope and any changes that occur during the engagement.

Considerations for Implementation

The objectives and scope for assurance engagements are determined primarily by the internal auditors, whereas the objectives and scope for advisory engagements are typically jointly established by the internal auditors and the management of the activity under review.

Internal auditors should align the engagement objectives with the business objectives of the activity under review, as well as with those of the organization. Properly defining engagement objectives and scope before the engagement starts enables internal auditors to:

- Focus efforts on the risks relevant to the activity under review based on the results of the engagement risk assessment. (See also Standard 13.2 Engagement Risk Assessment.)
- Develop the engagement work program.
- Avoid duplicating efforts or performing work that does not add value.

- Determine the engagement timeline.
- Allocate appropriate and sufficient resources to complete the engagement. (See also Standard 13.5 Engagement Resources.)
- Communicate clearly with management and the board.

Assurance engagements focus on providing assurance that the controls in place are adequately designed and operating to manage the risks that could prevent the activity under review from achieving its business objectives. The objectives of these engagements direct the priorities for testing the controls of processes and systems during the engagement. These include controls designed to manage risks related to:

- Assignment of authority and responsibility.
- Compliance with policies, plans, procedures, laws, and regulations.
- Reporting accurate, reliable information.
- Effectively and efficiently using resources.
- Safeguarding assets.

Once the engagement objectives have been established, internal auditors should use professional judgment and consult with the engagement supervisor as necessary to determine the scope of engagement work. The scope should be broad enough to achieve the engagement objectives. When determining the scope, internal auditors should consider each engagement objective independently to ensure that it can be accomplished within the scope.

Internal auditors should consider whether requests from the engagement stakeholders for items to be included in or excluded from the scope, or restrictions on the length of the engagement, constitute a scope limitation.

Examples of Evidence of Conformance

- Engagement planning memorandum.
- Engagement workpapers documenting:
 - Alignment of objectives and the engagement risk assessment.
 - Scope that achieves the engagement objectives.
 - Approved engagement work program containing the engagement objectives and scope.
 - Minutes from meetings with stakeholders about the engagement objectives and scope.
 - Scope limitations and requests from engagement stakeholders for items to be included or excluded.
 - Final engagement communication.

Standard 13.4 Evaluation Criteria

Requirements

Internal auditors must identify the most relevant criteria to be used to evaluate the aspects of the activity under review defined in the engagement objectives and scope. For advisory services, the identification of evaluation criteria may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must assess the extent to which the board and senior management have established adequate criteria to determine whether the activity under review has accomplished its objectives and goals. If such criteria are adequate, internal auditors must use them for the evaluation. If the criteria are inadequate, internal auditors must identify appropriate criteria through discussion with the board and/or senior management.

Considerations for Implementation

As part of gathering information and planning the engagement, internal auditors identify the criteria used by the organization to evaluate the effectiveness and efficiency of the governance, risk management, and control processes of the activity under review. Internal auditors should focus on the evaluation criteria most relevant to the engagement. Such criteria should represent the desired state of the activity and be specific and practical. Internal auditors compare the criteria against the existing state (condition). For example, if an engagement objective is to assess the effectiveness of the control processes in the activity under review, the criteria could be the expected results or outcomes of the activity's control processes, while the condition is revealed by the actual outcomes.

Adequate criteria are essential for identifying a difference between the desired state and the condition, which represents potential findings. Additionally, adequate criteria are necessary for determining the significance of the findings and reaching meaningful conclusions. Internal auditors use professional judgment to determine whether the organization's criteria are adequate. Adequate criteria are relevant, aligned with the objectives of the organization and the activity under review, and produce reliable comparisons. Examples of adequate criteria include:

- Internal (policies, procedures, key performance indicators, or targets for the activity).
- External (laws, regulations, and contractual obligations).
- Authoritative practices (frameworks, standards, guidance, and benchmarks specific to an industry, activity, or profession).
- Established organizational practices.
- Expectations based on the design of a control.
- Procedures that may not be formally documented.

When evaluating the adequacy of the criteria, internal auditors should determine whether the organization has established basic principles to define appropriate governance, risk management, and control processes. Internal auditors should consider whether the organization has developed and clearly articulated its risk tolerance, including materiality thresholds for various business units, functions, or processes. Internal auditors should ascertain whether the organization has adopted or clearly articulated a satisfactory level of control.

For example, satisfactory could mean that a certain percentage of transactions within one control objective are conducted in accordance with established control procedures or that a certain percentage of controls overall are working as intended.

Additionally, internal auditors should research recommended practices and compare management's criteria to those used by other organizations. Determining the criteria that are best for achieving the engagement objectives requires internal auditors to apply professional judgment. Internal auditors may determine that the documented policies, procedures, and/or other criteria lack detail or are otherwise inadequate. Internal auditors may assist management in determining adequate criteria or may seek input from experts to help identify or develop relevant criteria. Management's criteria may appear adequate generally, but internal auditors may suggest better criteria for the engagement.

When the criteria used by the activity under review are inadequate or nonexistent, internal auditors may recommend that management implement the criteria identified by the internal auditors. The discussion about the lack of adequate criteria may lead to a decision to provide advisory services.

Internal auditors should inform the management of the activity under review of the criteria to be used during the engagement. The agreed-upon criteria should be documented to preclude misinterpretation or challenge by the management of the activity under review.

Examples of Evidence of Conformance

- Workpapers documenting the sources of criteria considered and the process used to determine the adequacy of the criteria used.
- Documentation, such as meeting minutes, a planning memorandum, or an email, indicating internal auditors' discussion of criteria with the management of the activity under review and/or the board.

Standard 13.5 Engagement Resources

Requirements

When planning an engagement, internal auditors must identify the types and quantity of resources necessary to achieve the engagement objectives.

Internal auditors must consider:

- The nature and complexity of the engagement.
- The time frame within which the engagement is to be completed.
- Whether the available financial, human, and technological resources are appropriate and sufficient to achieve the engagement objectives.

If the available resources are inappropriate or insufficient, internal auditors must discuss the concerns with the chief audit executive to obtain the resources.

Considerations for Implementation

Identifying and assigning resources when planning an engagement is typically handled by an internal auditor designated to lead and supervise the engagement. To determine the type and quantity of resources needed for an engagement, the engagement supervisor should understand the information gathered and developed throughout engagement planning, paying special attention to the nature and complexity of work to be performed. The supervisor applies professional judgment to assign resources based on the steps identified in the work program to achieve the engagement objectives and the time that each step is expected to take. (See Standard 13.6 Work Program.) It is also important to consider constraints that may affect the engagement's performance, such as the number of hours budgeted, timing, logistics, and communications in multiple languages.

When planning engagements, internal auditors should consider the most efficient and effective application of available financial, human, and technological resources. The engagement supervisor may have access to the chief audit executive's information about the specialized competencies held by members of the internal audit function, which can help inform how to assign staff. Planning the engagement requires determining whether the available resources are appropriate and sufficient or additional resources are necessary to complete the engagement.

When resource limitations interfere with the internal audit function's ability to achieve the engagement objectives, the engagement supervisor is responsible for escalating the concern to the chief audit executive. The chief audit executive is responsible for discussing with senior management and the board the implications of resource limitations and determining the course of action to take. For example, when the chief audit executive is unable to obtain the necessary resources, the engagement scope may need to be reduced. (See also Principle 10 Manage Resources and its standards.)

To improve the effective implementation of resources, internal auditors may document the actual time spent performing the engagement against the budgeted time. The documentation can be reviewed to improve future resource planning.

Examples of Evidence of Conformance

- Approved engagement work program showing utilization of appropriate and sufficient resources.
- Planning documentation analyzing the engagement's resourcing needs and assignment of resources.
- Post-engagement survey of the management of the activity under review inquiring about timeliness and resource adequacy.
- Contracts and/or relationships with external service providers.

Standard 13.6 Work Program

Requirements

Internal auditors must develop and document an engagement work program to achieve the engagement objectives.

The engagement work program must be based on the information obtained during engagement planning, including, when applicable, the results of the engagement risk assessment.

The engagement work program must identify:

- Criteria to be used to evaluate each objective.
- Tasks to achieve the engagement objectives.
- Methodologies, including the analytical procedures to be used, and tools to perform the tasks.
- Internal auditors assigned to perform each task.

The chief audit executive must review and approve the engagement work program before it is implemented and promptly when any subsequent changes are made.

Considerations for Implementation

When planning an engagement, internal auditors collect and organize information to create a work program. The engagement work program builds on the information gathered and developed during engagement planning and details the tasks and methodologies that will be used to achieve the engagement objectives and analyze and evaluate information as internal auditors develop engagement findings, recommendations, and conclusions. For advisory services, the work program should be developed in collaboration with the stakeholders who requested the service.

Work performed during the planning phase should be documented in workpapers and referenced in the work program. (See also Standard 14.6 Engagement Documentation.) Work programs should include a place to add the name of the internal auditor who completed the work, the date the work was completed, and an indication of review and approval of the various tasks completed as the work is completed.

Internal auditors may develop the work program by linking the risks and controls identified during the engagement risk assessment with a testing approach to be implemented. As analyses and evaluations are conducted, internal auditors may link the risks and controls to the findings and conclusions.

The level of analysis and detail applied during the planning phase varies by internal audit function and engagement. When sampling is used, the work program should include the sampling methodology, population, sample size, and whether the results can be projected to the population.

Evaluating the adequacy of the control design may be completed as part of engagement planning, because it helps internal auditors clearly identify key controls to be further tested for effectiveness. The evaluation of the adequacy of the control design should be documented in either the work program or a separate workpaper. (See also Standard 14.6 Engagement Documentation.) However, the most appropriate time to

perform this evaluation depends on the nature of the engagement. If it is not completed during planning, the control design evaluation may occur as a specific stage of engagement performance, or internal auditors may evaluate the control design while performing tests of the effectiveness of the controls.

Examples of Evidence of Conformance

Workpapers supporting the development of the work program, such as:

- Risk and control matrix with testing approach.
- Maps or descriptions of control processes.
- Notes on evaluation of the adequacy of the control design.
- Plan for additional testing.
- Minutes, notes, or documentation from planning meetings during which tasks and procedures were determined.
- Complete engagement work program with documented approval.
- Documented approval of changes to the work program.

Principle 14 Conduct Engagement Work

Internal auditors implement the engagement work program to achieve the engagement objectives.

To implement the engagement work program, internal auditors gather information and perform analyses and evaluations to produce evidence. These steps enable internal auditors to:

- Provide assurance and identify potential findings.
- Determine the causes, effects, and significance of the findings.
- Develop recommendations and/or collaborate with management to develop action plans.
- Develop conclusions.

Standard 14.1 Gathering Information for Analyses and Evaluation

Requirements

To perform analyses and evaluations, internal auditors must gather information that is:

- Relevant – consistent with engagement objectives, within the scope of the engagement, and contributes to the development of engagement results.
- Reliable – factual and current. Internal auditors use professional skepticism to evaluate whether information is reliable. Reliability is strengthened when the information is:
 - Obtained directly by an internal auditor or from an independent source.
 - Corroborated.
 - Gathered from a system with effective governance, risk management, and control processes.

- Sufficient – when it enables internal auditors to perform analyses and complete evaluations and can enable a prudent, informed, and competent person to repeat the engagement work program and reach the same conclusions as the internal auditor.

Internal auditors must evaluate whether the information is relevant and reliable and whether it is sufficient such that analyses provide a reasonable basis upon which to formulate potential engagement findings and conclusions. (See also Standard 14.2 Analyses and Potential Engagement Findings.)

Internal auditors must determine whether to gather additional information for analyses and evaluation when evidence is not relevant, reliable, or sufficient to support engagement findings. If relevant evidence cannot be obtained, internal auditors must determine whether to identify that as a finding.

Considerations for Implementation

When gathering information to complete each step in the engagement work program, internal auditors focus on the information that is relevant to the engagement objectives and within the engagement scope. In applying professional skepticism, internal auditors should critically assess whether the information is factual, current, and obtained directly (such as by observation) or from a source independent of those responsible for an activity under review. Corroborating the information by comparing it against more than a single source is another way to increase reliability.

Procedures to gather information for analyses may include:

- Interviewing or surveying individuals involved in the activity.
- Directly observing a process, also known as performing a walk-through.
- Obtaining confirmation or verification of information from an individual who is independent of the activity under review.
- Inspecting or examining physical evidence such as documentation, inventory, or equipment.
- Directly accessing organizational systems to observe or extract data.
- Working with system users and administrators to obtain data.

When gathering information, internal auditors should consider whether to test a complete data population or a representative sample. Using data analysis software facilitates the ability to test complete or targeted data populations. If internal auditors choose to select a sample, they should apply methods to ensure that the sample is as representative of the entire population as possible.

Examples of Evidence of Conformance

- Engagement work program, which includes procedures for gathering data relevant to the engagement objectives.
- Description of information gathered, including its source, the date it was gathered, and the period to which it pertains.
- Documented explanation of how the internal auditor determined that the information gathered was sufficient to perform an analysis.

Standard 14.2 Analyses and Potential Engagement Findings

Requirements

Internal auditors must analyze relevant, reliable, and sufficient information to develop potential engagement findings. For advisory services, gathering evidence to develop findings may not be necessary, depending on the agreement with relevant stakeholders.

Internal auditors must analyze information to determine whether there is a difference between the evaluation criteria and the existing state of the activity under review, known as the “condition.” (See also Standard 13.4 Evaluation Criteria.)

Internal auditors must determine the condition by using information and evidence gathered during the engagement.

A difference between the criteria and the condition indicates a potential engagement finding that must be noted and further evaluated. If initial analyses do not provide sufficient evidence to support a potential engagement finding, internal auditors must exercise due professional care to determine whether additional analyses are required.

If additional analyses are required, the work program must be adjusted accordingly and approved by the chief audit executive.

If internal auditors determine that no additional analyses are required and there is no difference between the criteria and the condition, the internal auditors must provide assurance in the engagement conclusion regarding the effectiveness of the activity's governance, risk management, and control processes.

Considerations for Implementation

The engagement work program may include a list of specific analyses to be conducted, such as:

- Tests of the accuracy or effectiveness of a process or activity.
- Ratio, trend, and regression analyses.
- Comparisons between current period information and budgets, forecasts, or similar information from prior periods.
- Analyses of relationships among sets of information (for example, financial information, such as recorded payroll expenses, and nonfinancial information, such as changes in the average number of employees).
- Internal benchmarking, comparing information between different areas within the organization.
- External benchmarking, comparing information from similar organizations.

Internal auditors should understand and use technologies that improve the efficiency and effectiveness of analyses, such as software applications that enable testing of an entire population rather than just a sample.

The analyses should yield a meaningful comparison between the evaluation criteria and the condition. When the analyses indicate a difference between the criteria and the condition, subsequent engagement procedures should be applied to determine the cause and effect of the difference and significance of the potential findings. Common examples of potential engagement findings include errors, irregularities, illegal acts, and opportunities for improving efficiency or effectiveness.

Internal auditors exercise due professional care to determine the extent and type of additional procedures that should be used to evaluate the potential findings and determine their cause, effect, and significance. The chief audit executive and the internal audit methodologies may provide guidance for determining whether to perform additional analyses. Considerations include the:

- Results of the engagement risk assessment, including the adequacy of control processes.
- Significance of the activity under review and the potential findings.
- Extent to which the analyses support potential engagement findings.
- Availability and reliability of information for further evaluation.
- Costs compared to the benefits of performing additional analyses.

Examples of Evidence of Conformance

- Workpapers that document the analyses performed, including data analytics programs or software used, test populations, sampling processes, and sampling methods.
- Workpapers cross-referenced in the work program and/or final communication.
- Documentation related to the final communication.
- Supervisory reviews of the engagement.

Standard 14.3 Evaluation of Findings

Requirements

Internal auditors must evaluate each potential engagement finding to determine its significance. When evaluating potential engagement findings, internal auditors must collaborate with management to identify the root causes when possible, determine the potential effects, and evaluate the significance of the issue.

To determine the significance of the risk, internal auditors must consider the likelihood of the risk occurring and the impact the risk may have on the organization's governance, risk management, or control processes.

If internal auditors determine that the organization is exposed to a significant risk, it must be documented and communicated as a finding.

Internal auditors must determine whether to report other risks as findings, based on the circumstances and established methodologies.

Internal auditors must prioritize each engagement finding based on its significance, using methodologies established by the chief audit executive.

Considerations for Implementation

To develop engagement findings, internal auditors compare the established criteria to the existing condition in the activity under review. (See also Standard 14.2 Analyses and Potential Engagement Findings.) If there is a difference between the two, internal auditors are required to investigate the potential finding further. The evaluation should explore:

- The root cause of the difference, which often relates to a control deficiency and is a direct reason the condition exists. To the extent feasible, internal auditors should determine the root cause, which is an underlying or deeper issue that contributed to the condition. At its simplest, determining the root cause involves asking a series of questions about why the difference exists. Identifying the root cause involves collaboration with management, who may be in a better position to understand the underlying causes for the difference.
- How the impact of the difference may be quantified. In many cases, the extent of the exposure is an estimate informed by internal auditors' professional judgment with input from the management of the activity under review. (See also Principle 4 Exercise Due Professional Care and its standards.)

To determine the significance of a finding, internal auditors identify and evaluate existing controls for design adequacy and effectiveness, then determine the level of residual risk, which is the risk that remains despite having controls in place. Although internal auditors are required to communicate significant risks as findings, internal auditors may also communicate other risks as findings or in some other way.

Internal auditors prioritize findings based on the methodology established by the chief audit executive to provide consistency across all internal audit engagements. A rating or ranking can be an effective communication tool for describing the significance of each finding and may assist management with prioritizing its action plans. When determining the significance, internal auditors should consider:

- The impact and likelihood of the risk.
- The risk tolerance.
- Any additional factors important to the organization.

The chief audit executive may provide templates for internal auditors to use to document engagement findings, ensuring proper documentation of various elements such as the:

- Criteria.
- Condition.
- Root cause (when possible).
- Effect (risk or potential exposure).
- Significance and prioritization.

Findings should be written succinctly, in plain language, such that the management of the activity under review understands the internal auditors' evaluation. Findings should explain the difference between the conditions and the criteria and should provide documented evidence that supports the internal auditors' evaluation and judgment about the findings' significance.

Examples of Evidence of Conformance

- Workpapers explaining the criteria used to evaluate the findings.
- Workpaper that lists the criteria, condition, root cause (when possible), effect (risk or potential exposure), and a prioritization of each finding.

- Workpaper or other documentation explaining the materiality, risk tolerance, and elements of any cost-benefit analysis used as the basis of the finding(s) analysis.
- Relevant internal audit methodologies, templates, and guidance.
- Documentation related to the final engagement communication.

Standard 14.4 Recommendations and Action Plans

Requirements

Internal auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions to:

- Resolve the differences between the established criteria and the existing condition.
- Mitigate identified risks to an acceptable level.
- Address the root cause of the finding.
- Enhance or improve the activity under review.

When developing recommendations, internal auditors must discuss the recommendations with the management of the activity under review.

If internal auditors and management disagree about the engagement recommendations and/or action plans, internal auditors must follow an established methodology to allow both parties to express their positions and rationale and to determine a resolution. (See also Standard 9.3 Methodologies.)

Considerations for Implementation

Internal auditors should promptly discuss the findings and potential recommendations or action plans with the management authorized to make and oversee changes to the activity under review. The chief audit executive may create a methodology to help internal auditors identify the appropriate management. For example, the methodology may require that only a given role or level (such as a manager, director, or vice president) has such authority.

If a specific corrective action is identified that addresses a finding, internal auditors may communicate it as a recommendation. Alternatively, internal auditors may present several options for management to consider. In some cases, internal auditors may suggest that management research options and determine the appropriate course of action. A single finding may have multiple recommendations or corrective actions.

If the internal auditor and the management of the activity under review disagree about the engagement results, the chief audit executive should work with senior management to facilitate a resolution. Additionally, a formal statement from each party may be attached to the final communication or made available upon request.

Internal auditors should evaluate and discuss with management the feasibility and reasonableness of the recommendations and/or action plans. The evaluation should include a cost-benefit analysis and determination of whether the recommendations and/or action plans address the risk satisfactorily in accordance with the organization's risk tolerance.

Although internal auditors must collaborate with management on how to address the engagement findings, it is management's responsibility to implement actions to address the findings. (See also Standard 15.1 Final Engagement Communication.)

Examples of Evidence of Conformance

- Workpapers for each finding, with the criteria, condition, root cause (when possible), effect (risk or potential exposure), and recommendation(s) and/or action plans included.
- Notes, workpapers, or other documentation evidencing discussions with management regarding the findings and feasibility of recommendations and/or action plans.
- Documentation related to the final communication.

Standard 14.5 Engagement Conclusions

Requirements

Internal auditors must develop an engagement conclusion that summarizes the engagement results relative to the engagement objectives and management's objectives. The engagement conclusion must summarize the internal auditors' professional judgment about the overall significance of the aggregated engagement findings.

Assurance engagement conclusions must include the internal auditors' judgment regarding the effectiveness of the governance, risk management, and/or control processes of the activity under review, including an acknowledgment of when processes are effective.

Considerations for Implementation

The chief audit executive's methodologies for the internal audit function may provide a rating scale indicating whether reasonable assurance exists regarding the effectiveness of controls. For example, a scale may indicate satisfactory, partially satisfactory, needs improvement, or unsatisfactory depending on the internal auditors' assessments. (See also Standard 14.3 Evaluation of Findings.)

The conclusion may add context regarding the impacts of the findings within the activity under review and the organization. For example, some findings may have a significant impact on achieving goals or managing risks at an activity level, but not at an organizational level.

Advisory engagement conclusions should align with the objectives and scope.

Examples of Evidence of Conformance

- A workpaper showing the basis for the overall engagement conclusion.
- A conclusion statement in the final communication.

Standard 14.6 Engagement Documentation

Requirements

Internal auditors must document information and evidence to support the engagement results. The analyses, evaluations, and supporting information relevant to an engagement must be documented such that an informed, prudent internal auditor, or similarly informed and competent person, could repeat the work and derive the same engagement results.

Internal auditors and the engagement supervisor must review the engagement documentation for accuracy, relevance, and completeness. The chief audit executive must review and approve the engagement documentation. Internal auditors must retain engagement documentation according to relevant laws and/or regulations as well as policies and procedures of the internal audit function and the organization.

Considerations for Implementation

Documentation of the internal audit engagement through workpapers is an important part of a systematic and disciplined engagement process because it organizes engagement information in a way that enables reperformance of the work and supports engagement results. Documentation provides the basis for supervising individual internal auditors and allows the chief audit executive and others to evaluate the quality of the internal audit function's work. Documentation also serves to demonstrate the internal audit function's conformance with the Standards.

Engagement documentation should include:

- Date or period of the engagement.
- Engagement risk assessment.
- Engagement objectives and scope.
- Work program.
- Description of analyses, including details of procedures and source(s) of data.
- Engagement results.
- Names or initials of the individuals who performed and supervised the work.
- Evidence of communication to appropriate parties.

Workpapers may be organized according to the structure developed in the work program and cross-referenced to relevant pieces of information. Templates or software may be used for developing workpapers and creating a system for retaining the documentation. The result is a complete collection of documentation of the information obtained, procedures completed, engagement results, and the logical basis for each step. This documentation constitutes the primary source of support for internal auditors' communication with stakeholders, including the board, senior management, and the management of the activity under review. Most importantly, workpapers contain relevant, reliable, and sufficient information that enables a prudent, informed, and competent person, such as another internal auditor or an external auditor, to reach the same conclusions as those reached by the internal auditors who conducted the engagement.

Common workpapers include:

- Planning documentation.
- Process map, flowchart, or narrative descriptions of key processes.
- Summaries of interviews conducted, or surveys issued.
- Risk and control matrix.
- Details of tests conducted and analyses performed.
- Conclusions, including cross-referencing to the workpaper on audit findings.
- Proposed follow-up engagement work to be performed.
- Internal audit final communication with management responses.

A basic format for workpapers:

- Index or reference number.
- Title or heading that identifies the activity under review.
- Date or period of the engagement.
- Scope of work performed.
- Statement of purpose for obtaining and analyzing the data.
- Source(s) of data covered in the workpaper.
- Description of population evaluated, including sample size and method of selection used to analyze data (testing approach).
- Name of the internal auditor(s) who performed the engagement work.
- Review notes and name of the internal auditor(s) who reviewed the work.

Examples of Evidence of Conformance

- Workpapers documenting the work performed in accordance with the established methodology.
- Results of internal quality assessment reviews validating conformance with workpaper and supervision policies.

Principle 15 Communicate Engagement Results and Monitor Action Plans

Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans.

Internal auditors are responsible for issuing a final communication after completing the engagement and communicating the engagement results to management. Internal auditors continue to communicate with the management of the activity under review to confirm that action plans are implemented.

Standard 15.1 Final Engagement Communication

Requirements

For each engagement, internal auditors must develop a final communication that includes the engagement's objectives, scope, recommendations and/or action plans if applicable, and conclusions.

The final communication for assurance engagements also must include:

- The findings and their significance and prioritization.
- An explanation of scope limitations, if any.
- A conclusion regarding the effectiveness of the governance, risk management, and control processes of the activity reviewed.

The final communication must specify the individuals responsible for addressing the findings and the planned date by which the actions should be completed.

When internal auditors become aware that management has initiated or completed actions to address a finding before the final communication, the actions must be acknowledged in the communication.

The final communication must be accurate, objective, clear, concise, constructive, complete, and timely, as described in Standard 11.2 Effective Communication.

Internal auditors must ensure the final communication is reviewed and approved by the chief audit executive before it is issued.

The chief audit executive must disseminate the final communication to parties who can ensure that the results are given due consideration. (See also Standard 11.3 Communicating Results.)

If the engagement is not conducted in conformance with the Standards, the final engagement communication must disclose the following details about the nonconformance:

- Standard(s) with which conformance was not achieved.
- Reason(s) for nonconformance.
- Impact of nonconformance on the engagement findings and conclusions.

Considerations for Implementation

A statement that the engagement is conducted in conformance with the Global Internal Audit Standards should be included in the final engagement communication. Indicating that the internal audit engagement conformed with the Standards is appropriate only if supported by the results of engagement supervision and the quality assurance and improvement program.

The style and format of final engagement communication varies across organizations. The chief audit executive may provide templates and procedures.

Multiple versions of a final communication may be issued, with formats, content, and level of detail customized to address specific audiences, based upon how much they know about the activity under review, how the findings and conclusions affect them, and how they plan to use the information.

When issued as a report, the final communication may include the following components, in addition to the requirements:

- Title.
- Background (brief synopsis of the activity under review).
- Recognition (positive aspects of activity under review and/or appreciation of cooperation).
- Distribution list.

The review of the final communication should verify whether:

- The work performed and documented was consistent with the engagement objectives and scope and the Standards. (See also Standards 8.3 Quality and 12.1 Internal Quality Assessment.)
- The engagement results are clearly stated and supported by relevant, reliable, and sufficient information. (See also Standard 14.1 Gathering Information for Analyses and Evaluation.)
- The requirements for communicating with the management of the activity under review were met.

The chief audit executive determines how and to whom the final engagement communication is disseminated. Oral presentations are usually supported with a digital or printed copy of the presentation and/or a written report.

Examples of Evidence of Conformance

- Written final communications.
- Slides and/or meeting notes of presentations when final communication is oral.
- Documentation indicating that the final communication was reviewed and approved.
- Documentation that requirements for communicating with the activity under review were met.

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

Requirements

Internal auditors must confirm that management has implemented internal auditors' recommendations or management's action plans following an established methodology, which includes:

- Inquiring about progress on the implementation.
- Performing follow-up assessments using a risk-based approach.
- Updating the status of management's actions in a tracking system.

The extent of these procedures must consider the significance of the finding.

If management has not progressed in implementing the actions according to the established completion dates, internal auditors must obtain and document an explanation from management and discuss the issue with the chief audit executive. The chief audit executive is responsible for determining whether senior management, by delay or inaction, has accepted a risk that exceeds the risk tolerance. (See also Standard 11.5 Communicating the Acceptance of Risks.)

Considerations for Implementation

Internal auditors may use a software program, spreadsheet, or system to track whether management's action plans are implemented according to the established timelines. The tracking system indicates whether action plans remain open or are past due and provides a useful tool for internal auditors to communicate with the board and senior management. In addition, a program or system may automate the workflow from risk assessment to action plan completion. For example, the workflow may include automated emails that notify the appropriate parties regarding action plans that are nearing their target completion dates.

The methodology for confirming the implementation of management's action plans should include criteria for determining when to perform follow-up assessments to confirm that management's action plans have effectively addressed findings. Follow-up assessments may be performed for completed action plans selectively, depending on the risk's significance. Under certain circumstances, regulators may require reporting on management's action plans.

If management decides on an alternative action plan and internal auditors agree that the alternative plan is satisfactory or better than the original action plan, then progress on the alternative plan should be tracked until completion.

Examples of Evidence of Conformance

- A routinely updated tracking system (for example, a spreadsheet, database, or other tool) that contains the finding, associated corrective action plan, status, and Internal audit's confirmation.
- Corrective action status reports prepared for the board and senior management.

Applying the Global Internal Audit Standards in the Public Sector

While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organizational, and funding structures that may differ from those of the private sector. The nature of these structures and related conditions may be affected by the jurisdiction and level of government in which the internal audit function operates. Additionally, some terminology used in the public sector differs from that of the private sector. These differences may affect how internal audit functions in the public sector apply the Standards. For this reason, the external quality assessment of an internal audit function in the public sector should be performed by an assessment team knowledgeable about public sector activities and governance structures. (See also Standard 8.4 External Quality Assessment.)

The public sector is founded upon and governed under a legal framework that includes laws, regulations, administrative orders and rules, and other types of governing requirements specific to the jurisdiction(s) within which an organization operates. Throughout the Global Internal Audit Standards, the term “laws and/or regulations” is used to represent the legal framework. Laws and/or regulations may establish the mandate, organizational position, reporting relationship, scope of work, funding, and other requirements of the internal audit function.

Through such mandates, internal audit functions in the public sector are often required to focus on:

- Ensuring compliance with laws and/or regulations.
- Identifying opportunities to improve the efficiency, effectiveness, and economy of government processes and programs.
- Determining whether public resources are adequately safeguarded and used appropriately to provide services in an equitable manner.
- Assessing whether an organization's performance aligns with its strategic objectives and goals.

The following sections describe situations in which the application of the Standards may differ for internal auditors in the public sector.

Laws and/or Regulations

The chief audit executive must be aware of the laws and/or regulations that affect the internal audit function's ability to fully conform with all provisions in the Standards. A charter or other documentation may be used to explain how the internal audit function is meeting the requirements of the laws and/or regulations as well as the intent of the Standards. When conformance is not possible, the chief audit executive must document the reason, make appropriate disclosures, and conform with all other requirements of the Standards. (See also Standards 4.1 Conformance with Global Internal Audit Standards, 6.1 Internal Audit Mandate, 6.2 Internal Audit Charter, 8.3 Quality, 8.4 External Quality Assessment, 12.1 Internal Quality Assessment, and 15.1 Final Engagement Communication.)

The following list describes situations in which laws and/or regulations may affect the ability of internal audit functions in the public sector to conform with the Standards:

- When laws and/or regulations serve as the internal audit mandate and charter, the chief audit executive may not have the authority or ability to make amendments. Thus, the requirement in Standard 6.1 Internal Audit Mandate to periodically review the mandate for updates may not be warranted. However, the chief audit executive could periodically conduct and document a focused review of the mandate and charter to determine that the established path to legal and/or regulatory compliance is accurately defined.
- Public disclosure laws and/or regulations may govern the types of documents that are required to be released to the public and those that cannot be released to the public. The methodologies of internal audit functions in the public sector should include these requirements. (See also Standards 5.1 Use of Information and 5.2 Protection of Information.)
- Laws and/or regulations may limit the type of private discussions that the chief audit executive may have with the board. (See also the Glossary definition of “board” as well as Standards 6.3 Board and Senior Management Support and 7.1 Organizational Independence.)
- Laws and/or regulations may require internal audit functions in the public sector to present internal audit results at public meetings. Methodologies for the dissemination of final communications should adhere to these requirements. (See also Standards 11.2 Effective Communication and 15.1 Final Engagement Communication.)
- In the public sector the external assurance provider is often mandated. In some jurisdictions, the authority of a supreme audit institution may supersede that of the internal audit function and internal audit functions may be required to adhere to planning as stipulated and conduct joint work. In Standard 11.1 Building Relationships and Communicating with Stakeholders the internal audit function is required to coordinate with the external assurance provider, and this authority may supersede the coordination role. (See also Standards 6.1 Internal Audit Mandate and 9.5 Coordination and Reliance.)

Internal auditors in the public sector have a broad base of stakeholders, including the public within the jurisdiction as well as appointed and elected officials. The internal audit function may be legally required to be accountable and transparent to the public. To adequately serve their stakeholders, internal auditors may consider input from the public when planning and performing internal audit services. Public input may be provided by users of government services, such as utilities, public transit systems, parks and recreation facilities, building permitting processes, and others. (See also Standards 9.4 Internal Audit Plan, 11.1 Building Relationships and Communicating with Stakeholders, and 13.2 Engagement Risk Assessment.)

Governance and Organizational Structure

Internal audit functions in the public sector are governed under a variety of structures. Some public sector organizations may be subject to multiple levels of governance, both within and outside the organization, which may complicate the reporting relationships of the chief audit executive as well as the oversight and funding of the function.

The Global Internal Audit Standards reference responsibilities related to the “board” and “senior management.” The glossary defines “board” using concepts that encompass various governance structures in the public sector. Because the board in the public sector may be a policy-setting body, it may not have authority over aspects of the chief audit executive and the internal audit function as described in the Standards. For example, such a body may not be able to appoint, remove, or set remuneration for the chief audit executive. In those situations, the board should still provide input to management regarding performance evaluations and decisions to appoint and remove the chief audit executive. In other public sector organizations, “senior management” may be defined differently than it is in the Standards. When the term is used to refer to the management of the activity under review, safeguards to independence must be implemented to mitigate the risk of interference with the internal audit function’s work.

The chief audit executive should avoid taking direction from elected officials without first consulting the board and senior management, who directly oversee the internal audit function, unless the officials have direct oversight responsibilities.

The examples below describe governance and organizational structures in which internal audit functions may need to adjust the application of some standards (the list is not exhaustive):

- Internal audit functions may be separate from other parts of the organization, and the chief audit executive reports directly to a legislative body that functions as a board.
- Internal audit functions may be placed at the highest level of the government organization, and the chief audit executive reports directly to the head of the organization.
- Internal audit functions may be placed within another component of the overall organization (such as a department or other unit within a government organization), and the chief audit executive reports to the head of the organization or a nonexecutive/supervisory board. This may occur when there is a tiered governance structure and where there is more than one governing body.
- Internal audit functions may be separate from other parts of the organization because the chief audit executive is elected and retained by the voters within a jurisdiction and does not report to any specific oversight body or person in the organization.
- Internal audit functions may be placed lower in the organization, and the chief audit executive reports to a single senior manager from that department.

While some of these situations do not meet the independence requirements in the Global Internal Audit Standards, establishing an audit committee comprising public members, independent of management, safeguards independence and provides ongoing oversight, advice, and feedback. (See also Standards 6.2 Internal Audit Charter and 6.3 Board and Senior Management Support, Principle 7 Positioned Independently and its standards, and Standard 8.1 Board Interaction.)

Funding

The funding processes for internal audit functions vary widely in the public sector. Some governance and organizational structures do not give the board and senior management authority over the budget. These conditions prevent the chief audit executive from being able to seek budget approval from the board and senior management and limit the ability to seek or obtain additional funding due to other funding priorities within the organization.

For example, some internal audit functions within the public sector can submit independent budget requests to their board or legislative body for approval. Others' budgets are part of a larger organizational budget, and the allocation to the internal audit function is determined by the head of the organization and often approved by an outside legislative body. In either case, the chief audit executive could advocate to the board for the resources needed.

Even when the budget is set by laws and/or regulations, the chief audit executive must adhere to other requirements of the standards related to managing the budget. (See also Standards 6.3 Board and Senior Management Support, 7.1 Organizational Independence, 8.2 Resources, and 10.1 Financial Resource Management.)

The following public sector conditions may limit the way the chief audit executive may spend allocated funds:

- The position classification structure and/or labor agreements often establish pay ranges for each position classification based on the knowledge, skills, and responsibilities of the position that limit the authority of the chief audit executive or board to establish the remuneration for each employee. In such situations, the chief audit executive should collaborate with the human resources function, as described in Standard 10.2 Human Resources Management.

- The internal audit function may be required to use only software approved for the organization, which may limit the chief audit executive's ability to obtain technology to support the internal audit function. Internal audit functions in the public sector should engage their board as advocates for supporting their technology needs and may need to use software available to achieve the audit plan in the most efficient way possible while maintaining conformance with the Standards. (See also Standard 10.3 Technological Resources.)
- When funding limitations prevent the chief audit executive from obtaining adequate resources to conduct an external quality assessment, internal audit functions in the public sector may benefit from participating in peer programs to conduct the assessment. (See also Standards 8.4 External Quality Assessment and 10.1 Financial Resource Management.)
- When an outside authority or oversight body provides the funding for the internal audit function in the public sector, the chief audit executive may be required to provide final engagement communications to the funding authority. (See also Standards 11.1 Building Relationships and Communicating with Stakeholders, 11.2 Effective Communication, and 15.1 Final Engagement Communication.)

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About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 245,000 global members and has awarded more than 190,000 Certified Internal Auditor® (CIA®) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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A REPORT PRESENTED TO
LOS ANGELES COUNTY
EMPLOYEES RETIREMENT
ASSOCIATION (LACERA)

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QUALITY ASSESSMENT REPORT

Prepared February 18, 2022

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Los Angeles County Employees Retirement Association

This Internal Audit Department **Generally Conforms** to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

A Generally Conforms rating means the internal audit activity conforms to the requirements of the Standards and elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects. This rating does not imply full conformance and is achievable even when some areas of the Standards are determined to be in partial conformance.

GOVERNANCE		STAFF		MANAGEMENT		PROCESS	
Standard	Rating	Standard	Rating	Standard	Rating	Standard	Rating
1000	GC	1200	GC	2000	GC	2200	GC
1100	GC			2100	GC	2300	GC
1300	GC			2450	GC	2400	GC
Code of Ethics	GC			2600	GC	2500	GC



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List of Acronyms

ACRONYM	DESCRIPTION
CAATs	Computer-Assisted Audit Techniques
CAE	Chief Audit Executive
CPE	Continuing Professional Education
EQA	External Quality Assessment
IA	Internal Audit
IIA	The Institute of Internal Auditors
Internal Audit	Internal Audit Department
IPPF	International Professional Practices Framework
IT	Information Technology
QAIP	Quality Assurance and Improvement Program
<i>Quality Assessment Manual</i>	<i>Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition</i>
<i>Standards</i>	<i>International Standards for the Professional Practice of Internal Auditing</i>
SWOT	Strengths, Weaknesses, Opportunities, and Threats

Executive Summary

Conformance Summary

STANDARDS AND THE IIA CODE OF ETHICS

		GC	PC	DNC
ATTRIBUTE STANDARDS				
1000 - Purpose, Authority, and Responsibility		X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100 - Independence and Objectivity		X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200 - Proficiency and Due Professional Care		X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300 - Quality Assurance and Improvement Program (QAIP)		X		
1310	Requirements of the QAIP	X		
1311	Internal Assessments		X	
1312	External Assessments		X	
1320	Reporting on the QAIP	X		
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement		X	
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS				
2000 - Managing the Internal Audit Activity		X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		

		GC	PC	DNC
PERFORMANCE STANDARDS (CONTINUED)				
2100 - Nature of Work		X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200 - Engagement Planning		X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programs	X		
2300 - Performing the Engagement		X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information		X	
2340	Engagement Supervision		X	
2400 - Communicating Results		X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"		X	
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500 - Monitoring Progress		X		
2600 - Communicating the Acceptance of Risks		X		
IIA CODE OF ETHICS				
Code of Ethics		X		
OVERALL CONFORMANCE RATING		X		

Overall Opinion

OPINION AS TO CONFORMANCE WITH THE STANDARDS AND THE IIA CODE OF ETHICS

The internal audit activity at Los Angeles County Employees Retirement Association (LACERA) Generally Conforms with the Standards and the IIA Code of Ethics. A Generally Conforms rating means the internal audit activity conforms to the requirements of the Standards and elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects. This rating does not imply full conformance and is achievable even when some areas of the Standards are determined to be in partial conformance.

A summary of conformance with individual *Standards* and the IIA Code of Ethics is provided within the “Conformance Summary” section of this report. Upon issuance of this report, Internal Audit may use the phrases “Conforms with the *International Standards for the Professional Practice of Internal Auditing*” and “Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*” within its practice materials and/or audit reports.

The IIA *Quality Assessment Manual for the Internal Audit Activity – 2017 IPPF Aligned Edition (Quality Assessment Manual)* suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” Detailed rating definitions and criteria associated with “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” are described within Appendix A of this report and are consistent with IIA guidance stated in its *Quality Assessment Manual*.

Under the *Standards*, an External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization. IIA Quality Services, LLC was selected to lead this assessment. This engagement’s Assessment Team demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the *Standards*. The External Quality Assessment was conducted virtually primarily during the week of February 7, 2022. Conclusions were as of February 11, 2022.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact upon the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions. All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, Audit Committee, or external auditor) without the prior written consent of IIA Quality Services, LLC.

Objectives, Scope, and Methodology

OBJECTIVES

The primary objective of this assessment was to evaluate conformance to the *Standards*, which require an EQA of an internal audit activity at least every five years. In addition, the Assessment Team:

- Assessed conformance with the IIA Code of Ethics
- Assessed Internal Audit's effectiveness in providing assurance and advisory services to stakeholders and other interested parties
- Identified opportunities, offered recommendations for improvement, and provided counsel to Internal Audit for improving its performance and services, as well as promoting its image and credibility throughout the organization

SCOPE

The scope of this assessment included an evaluation of Internal Audit's efficiency and effectiveness in executing its mission, as set forth by the Internal Audit Charter, which defines the purpose, authority, responsibilities, and accountabilities of Internal Audit.

METHODOLOGY

To accomplish the aforementioned objectives, the Assessment Team:

- Reviewed information prepared by Internal Audit at the Assessment Team's request
- Conducted interviews with key stakeholders of Internal Audit including board members, senior executives, the external auditors, the Chief Audit Executive (CAE), and members of the Internal Audit function
- Reviewed a limited sample of audit projects and associated work papers and reports
- Reviewed survey data received from Internal Audit stakeholders resulting from IIA Quality Services' survey process
- Reviewed benchmark data
- Prepared diagnostic tools consistent with the methodology established for an EQA as stated in the *Quality Assessment Manual*

Observations Specific to Internal Audit

OVERALL SUMMARY

The internal audit activity at Los Angeles County Employees Retirement Association (LACERA) Generally Conforms with the Standards and the IIA Code of Ethics. A conformance rating of Generally Conforms (GC) means the Assessment Team concluded the following:

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

While LACERA Internal Audit Generally Conforms with the Standards and the IIA Code of Ethics, Internal Audit received a rating of Partially Conforms for six Standards resulting in five Conformance Gaps:

1311	Internal Assessments
1312 -	External Assessments
1321/2430 -	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”
2330 -	Documenting Information
2340 -	Engagement Supervision

These Conformance Gaps are discussed in the Detailed Observations section of this report along with six leading practices and eight opportunities to improvement. Of note, Internal Audit has recently implemented a comprehensive follow-up process that provides the Audit Committee and management valuable insight into efforts to implement internal audit recommendations. Lastly, multiple additional opportunities to improve the audit activity that did not raise to the level of reporting were discussed with the Chief Audit Executive and his management team.

Detailed Observations

Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

#	STANDARD	SUCCESSFUL PRACTICE
SP01	1220 – Due Professional Care 1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.	LACERA IA has well-credentialed staff. Many staff members hold multiple certifications in the areas of internal auditing, fraud, accounting, data analytics, and information technology. Internal Audit has employed data analytics tool to assist with engagements. LACERA supports staff continuing professional development and provides an annual bonus for certified staff.
SP02	1312 External Assessments	A commitment to quality is demonstrated by engaging this external assessment. See separate conformance gap 1312 External Assessments.
SP03	2330 - Documenting Information Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.	The department is making good use of TeamMate for Audit Planning and Working Papers. See separate opportunities related to: 2330 - Documenting Information 2340 - Engagement Supervision
SP04	2120 – Risk Management The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.	Internal audit conducts a robust annual risk assessment and planning effort prior to developing their annual plan. The effort includes interviews and discussions with key stakeholders and an evaluation of external leadership using the IIA's "On Risk" annual report. See separate opportunity related to: 2010 – Planning 2030 – Resource Management



Successful Practices

The Assessment Team identified the following areas where Internal Audit operates in a successful practice manner:

#	STANDARD	SUCCESSFUL PRACTICE
SP05	Leading Practice – Management and Audit Committee Relations	Management and the Audit Committee are engaged with Internal Audit. Overall, Internal Audit is commonly viewed as value adding and as having positive relationships with management.
SP06	Leading Practice – Thought Leadership	LACERA IA shares risk intelligence and benchmarking thought-leadership with the board audit committee using the IIA's report "On Risk." This annual report offers boardroom, C-suite, and internal audit annual perspectives on risk to challenge and extend management and the board's view on risk, see https://www.theiia.org/OnRisk . LACERA IA could consider including views of risk sourced from industry publications, public accounting firms, and other internal auditing service providers to broaden the landscape of thought-leadership presented to the board audit committee during IA's annual risk assessment.



Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG01	<p>1311 Internal Assessments</p> <p>Internal assessments must include:</p> <ul style="list-style-type: none"> • Ongoing monitoring of the performance of the internal audit activity. • Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices 	<p>Ongoing monitoring of engagements is conducted, but can be improved. Ongoing monitoring of performance is discussed under the opportunity for 2340 - Engagement Supervision</p> <p>Internal Audit did conduct a periodic internal assessment and reported the results to the Audit Committee. However, workpapers to support the assessment were not maintained and available for review.</p> <p>Key Performance Indicators (KPI) are vital for monitoring the performance of the overall internal audit activity. Several indicators are routinely tracked and communicated to the Audit Committee such as:</p> <ul style="list-style-type: none"> • Audit Plan Completion • Internal Audit Coverage of the Organization • Engagement-level audit cycle time <p>Internal Audit has an opportunity, working with the Audit Committee and Executive Management, to establish KPIs that will be meaningful to these stakeholders. Establishing goals for each KPI will help Internal Audit target their efforts to accomplish the metrics.</p>	<p>Recommendation #1:</p> <ol style="list-style-type: none"> Work with the Committee and Executive Management to establish meaningful KPIs and measurable goals related to each. Adequately document the work performed for the Internal Periodic Assessment. This effort could be included in Internal Audit's to be developed Strategic Plan, see IO05. 	<p>Recommendation #1 – Management Responses and Action Plans:</p> <ol style="list-style-type: none"> Internal Audit (IA) management agrees with the recommendation and will discuss KPIs with the Executive Office and Audit Committee (AC) Chair in developing meaningful and measurable KPIs. We will then establish KPIs which we will report in the Audit Plan Status Report presented at AC meetings. Due Date: 8/30/22 IA management agrees with the recommendation and will develop formalized Internal Periodic Assessment and establish due dates for completion. Due Date: 3/31/22 IA management agrees with the recommendation and will include these efforts in our Strategic Plan. Due Date 10/31/22

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG02	1312 External Assessments External assessments must be conducted at least once every five years.	Internal Audit's most recent external quality assessment was completed in 2016. With the completion of this assessment, Internal Audit comes into conformance with this Standard	Recommendation #2: Assure an EQA is conducted at least every 5 years.	Management Response and Action Plan Recommendation #2: IA management agrees with the recommendation and will ensure that the next EQA is conducted within 5 years. Due Date: Implemented
CG03	1321 & 2430 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Indicating that engagements and the internal audit activity are "in conformance with the International Standards for the Professional Practice of Internal Auditing" is appropriate only if supported by the results of the quality assurance and improvement program.	Internal Audit continued to use the statement even though an external QA as not conducted at least once every five years.	Recommendation #3: Refrain from using Conformance Statement without external quality assessment confirming conformance.	Management Response and Action Plan Recommendation #3: IA management agrees with the recommendation and will not use the Conformance Statement until the Final EQA Report is issued. Due Date: Implemented



Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG04	2330 - Documenting Information Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.	<p>Engagement documentation reviewed for this assessment was limited due to:</p> <ul style="list-style-type: none"> a) The structure of engagement files that were converted into TeamMate+ (TM), b) The changing and maturing of departmental procedures during the period of review, and c) A lack of centralized and complete procedures to outline the intended documentation practices. <p>Our review primarily focused on a limited sample of one engagement that had followed current and intended departmental practice and which was fully completed within the new TM file structure.</p> <p>We also reviewed additional historical files to assess and confirm observations related to the 2200 series performance standards gaps and opportunities that are noted in this report.</p>	<p>Recommendation# 4:</p> <p>Improve the quality and consistency of engagement working papers.</p> <p>In addition to the new file structure and process templates warehoused in TeamMate+, we strongly recommend the following actions be taken by Internal Audit to improve the quality and consistency of working paper documentation:</p> <ul style="list-style-type: none"> a. Document the intended work paper practices in the departmental manual. b. Align the end of audit quality review checklist to the steps in the IIA's QAIP's Internal Audit Process Program Guide. c. Continue to reinforce intended procedural standards in the monthly departmental quality team meetings. d. For a period of time, evaluate every engagement for compliance with documentation standards and once procedures and quality results are satisfactory, then mature your periodic internal quality reviews to a sample of audits. e. Once departmental procedures have been firmly established and operating for a period of time (at least six months) consider performing another external quality assessment (either a full assessment / independent assessment with external review, or a readiness assessment) more frequent than the suggested five-year requirement to ensure that the department processes are working as intended and are following good practice. 	<p>Recommendation #4 Management Response and Action Plan:</p> <ul style="list-style-type: none"> a. IA management agrees with the recommendation and will update Operation Guide and include this practice in the Guide. Due Date: 6/30/2022 b. IA management agrees with the recommendation and will align audit quality review checklist with the IIA QAIP Program Guide. Due Date: 3/31/2022 c. IA Management agrees with the recommendation and will continue to reinforce standards in monthly QAIP meetings. Due Date: Implemented d. IA Management agrees with the recommendation and in connection with recommendation #4b above, will perform a post audit evaluation of audit engagements for compliance with documentation Standards until FYE 2023 and subsequently will be perform the post audits on a sample basis. Due Date: 6/30/2023 e. Will work on refining and improving IA operations and after one year of doing so, will consider a readiness assessment. Due Date: 6/30/2023

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	CONFORMANCE GAP	DESCRIPTION	RESPONSE
CG05	2340 - Engagement Supervision Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.	<p>Internal audit management and staff reported a high degree of interaction and discussion during the conduct of audits. What has been a greater challenge is the timely documentation of supervisory approvals or “sign-off” in the automated workpaper tool TeamMate (TM).</p> <p>IA migrated to a new version of TM during the pandemic and prior to fully assessing and solidifying their internal working practices. Thus, IA management disclosed, and we observed, that supervisory sign-off during audit engagements was not always timely documented in the official working papers. The new TM file structure, that was recently implemented, reflected an improved level of timely supervision as observed in the TM tool.</p>	<p>Recommendation #5: We recommend IA management:</p> <ul style="list-style-type: none"> a) establish timelines for what constitutes timely supervisory review in the Internal Audit operating manual, b) ensure supervision is timely and contemporaneously documented in TM during audits, and c) include an evaluation of timely supervisory sign-off in their periodic internal quality assessments. 	<p>Recommendation #5 Management Response and Action Plan:</p> <ul style="list-style-type: none"> a) IA Management agrees with the recommendations and will establish timelines for audit engagements and will address them in our operating manual. Due Date 6/30/2022 b) IA Management agrees with the recommendations and will ensure Supervisory review is timely and documented based on our continuous QC reviews as noted in recommendation # 4d. Due Date 6/30/2022 c) IA Management agrees with the recommendations and will include an evaluation of timely supervisory sign-off in our periodic internal quality assessments. Due Date 6/30/2022

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO01	<p>1110 – Organizational Independence Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.</p>	<p>IA clearly reports functionally to the LACERA Audit Committee, However, the LACERA organizational chart on the organization’s external website does not show the Internal Audit Activity’s functional reporting relationship to the Audit Committee of the Boards.</p>	<p>Recommendation #6: Strengthen internal audit’s independence by updating the LACERA organization chart that is publicly facing to reflect a solid (functional) reporting line to the Audit Committee. Review all public and internally facing organization charts to ensure the reporting lines are appropriately reflected.</p>	<p>Recommendation #6 Management Response and Action Plan: IA Management agrees with the recommendations and will work with Exec Office and Communications Division to update the org charts accordingly. Due Date 3/31/22</p>
IO02	<p>1210 – Proficiency Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.</p> <p>1230 - Continuing Professional Development Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.</p>	<p>Internal audit has well-credentialed staff. Many staff members hold multiple certifications in the areas of internal auditing, fraud, accounting, data analytics, and information technology.</p>	<p>Recommendation #7: In order to enhance their competencies and continue their professional development, Internal Audit can:</p> <ol style="list-style-type: none"> Utilize a staff competency model similar to the IIA Internal Audit Competency Framework to self-assess staff against a formal competency framework. Add certification requirements to Internal Audit Job Descriptions if the practice is consistent with LACERA’s internal job description methodology. Ensure staff receive timely finalized and formal performance appraisals on at least an annual basis. 	<p>Recommendation #7 Management Response and Action Plan:</p> <ol style="list-style-type: none"> IA Management agrees with the recommendation and will develop a staff competency model using the IIA Internal Audit Competency Framework as a guide. We plan to discuss this at our April monthly QAIP meeting and will begin using it in FY 2023. Due Date: 6/30/2022. IA Management agrees with the recommendation and will review LACERA job descriptions for Internal Audit positions to align with current internal audit practices and evaluate the inclusion of certifications if feasible under LACERA job description methodology. Due Date: 6/30/2022 IA Management agrees with the recommendation and will ensure performance appraisals are completed in a timely manner and within LACERA’s PE timeline. We will also complete Competency Assessments on a fiscal year basis beginning with Fiscal Year 2023. Due Date 7/30/22

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO03	<p>1110 - Independence and Objectivity The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.</p> <p>2400 - Communicating Results Internal auditors must communicate the results of engagements.</p>	<p>Independence is the freedom from conditions that threaten the ability of the internal auditing activity to carry out their responsibilities in an unbiased manner.</p> <p>Further, the internal audit policies and procedures manual establishes the process for documenting the support for an observation/conclusion related to the engagement and the internal audit activity may develop an engagement communication plan to provide guidance for final engagement results.</p> <p>Internal audit follows a somewhat unique procedure to provide the board audit committee directors advance copies of final audit reports for review, questions, and comment. In certain circumstances, the CAE may change the audit report as a result of this process.</p>	<p>Recommendation #8: Creating ongoing systems and structures that ensure independence regardless of the unbiased nature of individuals, would strengthen independence and potentially mitigate any undue influence that might present itself in the future, either in perception or fact.</p> <p>Consider providing guidance in the Internal Audit operating manual and the audit charter to describe the nature and intended purpose of this preliminary board review and the safeguards in place to ensure this review and comment period does not create a perceived challenge to the internal audit function's independence.</p>	<p>Recommendation #8 Management Response and Action Plan: IA Management agrees with the recommendation. As part our strategic planning and review of our processes, we will reevaluate and document our process of issuing audit reports in our operations guide, as well as consider the necessity of changes to the Internal Audit and Audit Committee charters, to ensure Internal Audit's independence is maintained.</p> <p>Due Date: 10/31/2022</p>
IO04	<p>2120.A1 – Fraud Risk The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk</p> <p>2240 - Engagement Work Program Internal auditors must develop and document work programs that achieve the engagement objectives..</p>	<p>We reviewed a limited number of audit workpapers and queried IA management on their engagement-level planning process. IA management demonstrated an awareness for the potential of fraud and outlined the steps they follow to evaluate the potential for fraud in the engagement. However, evidence of conclusions could be more fully documented in the work papers.</p>	<p>Recommendation #9: Documentation of the engagement process followed, and the conclusions reached, could be enhanced so an independent reviewer would reach the same conclusion and to better support the agreed upon engagement-level scope and objectives.</p> <p>We recommend IA move forward with enhancing policies and procedures to better document and support their engagement-level fraud risk assessment including an assessment of the specific fraud red flags considered.</p>	<p>Recommendation #9 Management Response and Action Plan: IA Management agrees with the recommendation. We are in the process of enhancing our audit engagement process and to more effectively document and support engagement-level fraud risk assessment. The updates will be incorporated into our operations guide. Due Date 3/31/22.</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO05	<p>2000 – Managing the Internal Audit Activity The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</p>	<p>Developing and documenting a formalized strategic plan for Internal Audit is an emerging and evolving successful practice that supports internal audit activities operating in dynamic environments. A multi-year Internal Audit strategic plan can help Internal Audit improve their support to LACERA in a proactive, thoughtful, systematic, and practical manner.</p> <p>Additionally, strategic planning can help with Internal Audit leadership development and succession planning.</p> <p>The strategic plan might have a three-year horizon that is adjusted on an annual basis and presented to senior management and the Audit Committee in conjunction with the annual risk assessment and audit plan for review and approval. Strategic plans and related initiatives are generally supported by a “Strengths, Weaknesses, Opportunities, Threats” analysis.</p>	<p>Recommendation #10: Create a strategic plan to identify and address strategic initiatives going forward.</p>	<p>Recommendation #10 Management Response and Action Plan: IA Management agrees with the recommendation. IA management plans to develop a Strategic Plan to support internal audit activities and LACERA. The Plan will also address initiatives for succession planning.</p> <p>Due Date: 10/31/2022</p>
IO06	<p>2010 – Planning The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.</p> <p>2030 – Resource Management The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.</p>	<p>Stakeholder feedback indicates the annual audit planning process currently in place results in more work on the annual audit plan than Internal Audit can accomplish. This, as well as auditor vacancies and a maturing audit process, resulted in Internal Audit completing only 64% of their most recent annual plan.</p>	<p>Recommendation #11: Establish a realistic and achievable risk-based annual audit plan. Seek additional resources if the risk assessment indicates more risk than can be covered by Internal Audit’s current resources (staff and out-sourcing.).</p> <p>See also related opportunity IO08 Coordination and Reliance</p>	<p>Recommendation #11 Management Response and Action Plan: IA Management agrees with the recommendation. We will refine our risk assessment process to include 1) risks mapped to proposed projects based on available Internal Audit resources (staff and Audit Pool), 2) other risks areas that are being addressed by the organization or were recently addressed by Internal Audit, and 3) risks mapped to proposed projects if additional resources were available. We will provide the Audit Committee our updated risk assessment at the May 2022 AC meeting and final FY 2022/23 Audit Plan at the August 2022 meeting.</p> <p>Due Date 8/31/22</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO07	<p>2040 - Policies and Procedures</p> <p>The chief audit executive must establish policies and procedures to guide the internal audit activity.</p>	<p>IA operating practices matured and evolved over the period under our review and we noted that the department policies and procedures (operating manual) in minor areas are not fully aligned with the current IPPF.</p> <p>In addition, the operating manual has limited details on how internal audits are conducted at LACERA and specific procedures are outlined in multiple documents that are decentralized.</p> <p>A good practice is to centralize and detail the intended process staff should follow in the conduct of audits and perform a quality assessment of completed audits against the detailed process. The operating manual may take many forms, e.g., a MS Word document, an automated working paper file structure, instructions, and templates, and/or flowcharts and checklists. Detailing the intended practice staff are to follow also supports staff feedback, development, and performance accountability.</p>	<p>Recommendation #12:</p> <p>a. Stabilize Internal Audit process changes, update and fully centralize departmental policies and procedures, and develop a sustainable cadence for guidance updates and the related training of staff on those updates.</p> <p>b. Move forward with the planned update of departmental policies and procedures (operating manual), align this guidance with the current 2017 IPPF, and incorporate the following elements in the manual:</p> <ul style="list-style-type: none"> • The criteria and process for selection of third-party service providers. • Criteria used to evaluate and support reliance on the work of any LACERA internal second line functions, e.g., information security, quality assurance, and the proposed compliance division. • IA departmental Data Analytics expectations and procedures for ensuring data accuracy, requirements associated with handling data, standards and conventions for documentation data analytics in working papers, and standards for reporting data in audit reports. • Include the requirement for annual ethics training for Certified Internal Auditors (CIAs). • The frequency of operating manual updates and the process to ensure the manual remains current with IPPF guidance. • Consider moving the detailed IPPF standards to in an appendix to not distract from specific departmental policies and procedures. 	<p>Recommendation #12 Management Response and Action Plan:</p> <p>IA Management agrees with the recommendations 12a and 12b. We are in the process of updating our Operation Guide and will incorporate elements of the 2017 IPPF and other suggested inclusions, some we of which are already our practice, such as the annual ethics training for all staff, noted in the audit recommendations.</p> <p>Due Date: 6/30/2022</p>

Improvement Opportunities

The Assessment Team identified the following improvement opportunities that, if implemented, will enhance the efficiency and effectiveness of Internal Audit processes and/or infrastructure:

#	STANDARD	IMPROVEMENT OPPORTUNITY	DESCRIPTION	RESPONSE
IO08	2050 –Coordination and Reliance The chief audit executive should share information, coordinate activities, and consider relying on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. The goal is to provide management and the board with a comprehensive view of risk, including associated management accountabilities, and an assessment of where independent assurance is provided or warranted.	Internal audit directly coordinates the work of the external financial auditor, in addition they include discussions with operating and second line management in their annual risk assessment. IA has also recently assessed the second line Quality Operations department. However, IA has not established a consistent process for any basis of reliance, including an assessment of the competency, objectivity, and due professional care of the other assurance and consulting service providers nor has internal audit or management developed a comprehensive map of key risks and assurance coverage.	<p>Recommendation #13:</p> <p>We recommend Internal Audit work with LACERA Executive Office to coordinate and create an assurance map by linking identified significant risk categories with a management owner, the relevant sources of assurance, and rating the level of assurance provided for each risk category.</p> <p>Because the map is comprehensive, it can expose gaps and duplications in assurance coverage thus minimizing duplication and maximizing the efficiency and effectiveness of assurance coverage.</p> <p>The map can take many forms and be developed and populated over time. It need not be owned by Internal Audit but Internal Audit should play a key role in its development and update and utilize the information to establish its annual Internal Audit plan and evaluate its resource requirements.</p> <p>Following this approach provides management and the board with the necessary decision-making information to ensure efficient and effective coverage of key risks faced by LACERA. A combined assurance mapping effort typically:</p> <ul style="list-style-type: none"> • identifies the landscape of key corporate risks, • identifies the executive accountable for the risk, • reflects the various assurance providers responsible for management and board assurance related to these risks, and • ties to the annual Internal Audit plan including supporting resource needs. 	<p>Recommendation #13 Management Response and Action Plan:</p> <p>To address the conformance gap relating to Standard 2050 we will develop a feasible process to coordinate activities, and criteria for reliance on the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts. As part of our risk assessment process, we will provide Exec management and the Committee with a comprehensive view of risk, and an assessment of risk assurance effectiveness and efficiency and identify any gaps or deficiencies.</p> <p>Due Date: 8/30/23</p>

Appendix A

Conformance Rating Criteria

Conformance Rating Criteria

“Generally Conforms” (GC) means the Assessment Team concluded the following:

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

“Partially Conforms” (PC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is making good faith efforts to conform to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or the IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

“Does Not Conform” (DNC) means the Assessment Team 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* (i.e., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

Appendix B

Stakeholder Feedback

Stakeholder Feedback

SENIOR MANAGEMENT AND KEY STAKEHOLDERS

NAME	TITLE
Joe Kelly	Audit Committee Chair
Keith Knox	Audit Committee Member
Gina V. Sanchez	Audit Committee Member
Santos H. Kreimann	Chief Executive Officer
Luis A. Lugo	Deputy Chief Executive Officer
Laura Guglielmo	Assistant Executive Officer
JJ Popowich	Assistant Executive Officer
Carlos Barrios	Division Manager, Benefit Services
Jonathan Grabel	Chief Investment Officer
Kathy Delino	Manager, Information Systems
Ted Granger	Interim Chief Financial Officer
Steven Rice	Chief Counsel, Legal Services
Carly Ntoya	Director, Human Resources

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

Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF

NAME	TITLE
Richard Bendall	Chief, Internal Audit
Christina Login	Principal Internal Auditor
Leisha Collins	Principal Internal Auditor
Kathryn Ton	Internal Auditor
Gabriel Tafoya	Internal Auditor
George Lunde	Internal Auditor

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

Stakeholder Feedback

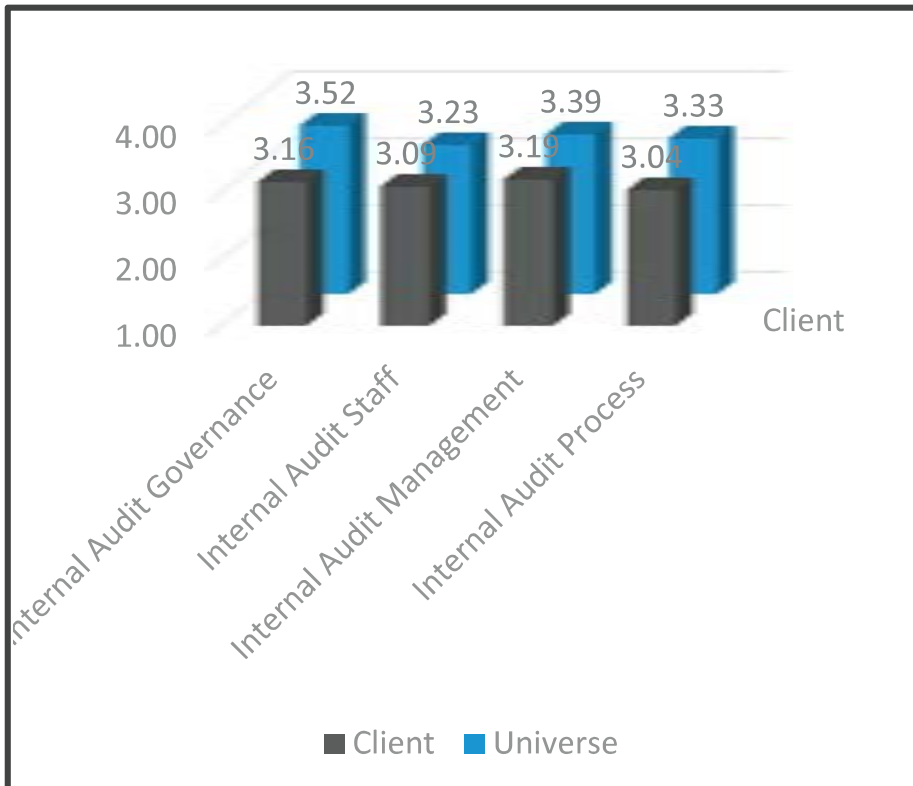
COMMENTS RECEIVED DURING INTERVIEWS AND SURVEYS

The summary comments listed below represent general themes expressed by more than one stakeholder during stakeholder interviews and/or surveys that were validated by the Assessment Team. All stakeholder interviews were conducted privately without presence of the CAE. All surveys were conducted in a confidential manner. Statistical results of surveys are presented separately from these comments.

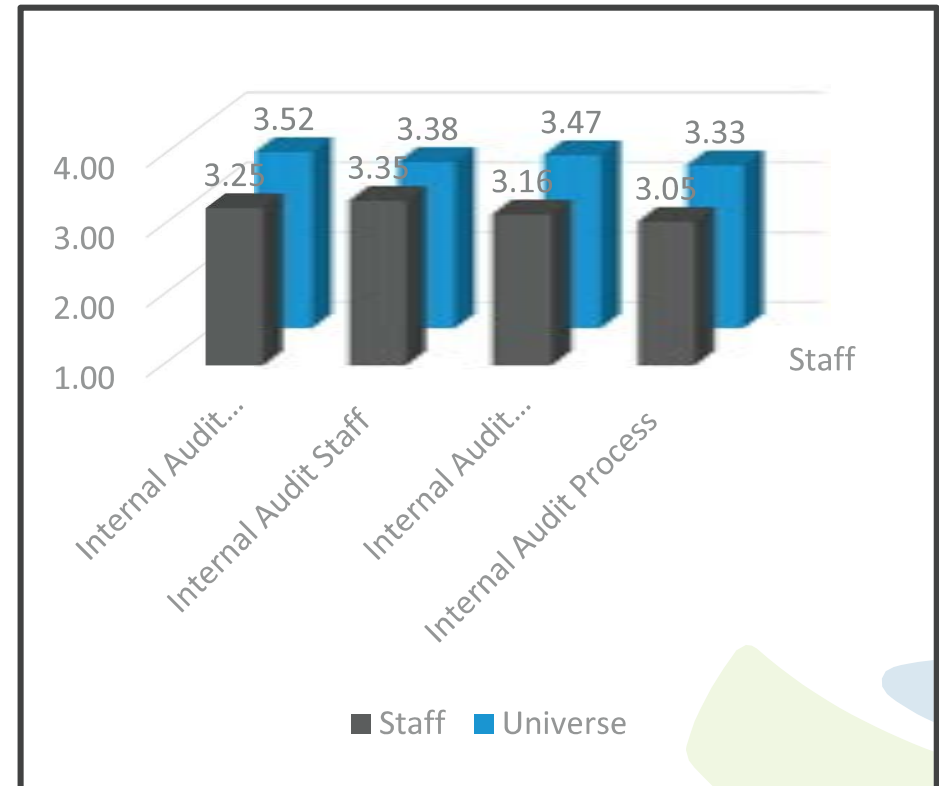
STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none">▪ Their dedication to independent controls and being independent is admirable▪ The LACERA IA team excels at communicating.▪ They follow up on audit findings in a systematic way, hold regular meetings with LACERA Management to identify barriers, obstacles and organizational risks, and they collaborate with management to problem solve on areas of risk that may or may not be part of an audit.▪ Good teamwork and collegial relationships▪ Good communication skills with AC, management, and staff▪ Good institutional knowledge which helps them effectively perform their work▪ We have a stronger IA team than we had in the past and I wish to convey my congratulations for their efforts.	<ul style="list-style-type: none">▪ Focus the work plan -- current plan tackles too many subjects▪ Training on the role of audit and audit processes for MAC would help with understanding and help reinforce IA independence▪ Increased subject matter expertise – particularly in the Information Technology and Investment areas▪ Audits take too long to complete▪ Continue to help with Enterprise Risk Management▪ Training on the role of audit and audit processes for MAC▪ Focus on benefits processes▪ Improve quality assurance review at the supervisory and management level is often poorly executed▪ Provide interim status reporting when projects lag or take too long▪ Consider teaming better with management and utilizing the new “Data Lake/Warehouse” to speed up data requests and ease the burden on management.

Stakeholder Feedback

SURVEY RESULTS (SUMMARY)



CLIENT SURVEY



STAFF SURVEY

“Client” represents the weighted average of all stakeholder respondents.

“Universe” represents the weighted average of all respondents from all organizations that completed this survey since May 2013.

4.00 = Strongly Agree | 3.00 = Agree | 2.00 = Disagree | 1.00 = Strongly Disagree | 0.00 = Do Not Know/No Response

Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	3	4	AVG	UNV
IA activity personnel respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.	4.00	3.33	3.25	3.25	3.33	3.70
IA activity personnel exhibit the highest level of professional objectivity in performing their work, making a balanced assessment of all relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	4.00	3.00	2.75	3.00	3.00	3.47
The IA activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.00	3.25	3.40	3.21	3.35
The integrity of the IA activity establishes confidence, providing the basis for their role as trusted advisor within our organization.	4.00	3.33	3.25	3.00	3.23	3.43
Organizational placement of the IA activity ensures its independence and ability to fulfill its responsibilities.	4.00	3.25	3.00	3.25	3.23	3.56
IA activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.33	3.00	3.25	3.25	3.62

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)

Group 3 = LACERA Senior Executive Team (4 of 6 respondents)

Group 4 = LACERA Division Management (5 of 12 respondents)

“AVG” represents the weighted average of all respondents for all stakeholders.

“UNV” represents the weighted average of all respondents from all organizations that completed this survey since May 2013.

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Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	3	4	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	3.00	3.00	3.50	3.20	3.21	3.34
IA activity staff and management keep up to date with changes in my business, our industry and relevant regulatory issues.	4.00	3.00	3.00	3.00	3.13	3.22
IA activity staff display adequate knowledge of my business processes including critical success factors.	3.00	3.25	2.75	3.00	3.00	3.14
IA activity staff exhibit effective problem identification and solution skills.	3.00	3.25	3.00	3.00	3.08	3.23
IA activity management demonstrate effective conflict resolution and negotiating skills.	3.00	3.33	3.25	2.50	3.10	3.27
The IA activity is viewed as viable source of talented individuals who could successfully transfer to other parts of our organization.	4.00	3.00	3.25	3.00	3.18	3.19

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

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Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Management	1	2	3	4	AVG	UNV
Internal audit activity management communicates effectively (oral, written, and presentations).	3.00	3.00	3.50	3.20	3.23	3.37
Internal audit activity management keeps up to date with changes in my business, our industry, and relevant regulatory issues.	4.00	3.00	3.33	2.50	3.13	3.23
The IA activity establishes annual audit plans to assess areas or topics that are significant to our organization and consistent with our organizational goals.	4.00	3.67	3.50	3.00	3.38	3.44
The IA activity sufficiently communicates its audit plans to management of areas being reviewed. This includes descriptions of audit objectives and scope of review.	4.00	3.67	3.50	3.00	3.38	3.42
The IA activity effectively promotes appropriate ethics and values within our organization.	3.00	3.33	3.50	3.20	3.31	3.55
The IA activity adequately assesses the effectiveness of risk management processes employed by management to achieve objectives.	3.00	3.00	3.00	2.80	2.92	3.33

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

Group 2 = LACERA Audit Committee & Consultant (4 of 8 respondents)

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Group 4 = LACERA Division Management (5 of 12 respondents)

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Stakeholder Feedback

SURVEY RESULTS (DETAIL)

Internal Audit Process	1	2	3	4	AVG	UNV
The IA activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.33	3.25	3.00	3.15	3.37
The IA activity exhibits proficient project management and organizational skills to assure the timely completion of their audit engagements.	3.00	2.50	3.25	3.00	3.00	3.30
The IA activity demonstrates sufficient knowledge of key information technology risks and controls in performing its audit engagements.	3.00	3.00	3.25	2.80	3.00	3.28
The IA activity demonstrates sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning its audit engagements.	3.00	3.33	3.00	3.00	3.09	3.40
IA activity audit reports are accurate, objective, clear, concise, constructive, complete, and timely.	3.00	2.67	3.33	2.80	2.92	3.29

LEGEND

Group 1 = LACERA Chief Audit Executive (1 of 1 respondents)

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Governance	1	2	AVG	UNV
Our internal audit activity is perceived as adding value and helping our organization accomplish its objectives.	3.00	3.00	3.00	3.47
Our internal audit activity personnel have free and unrestricted access to records, information, locations, and employees during the performance of their engagements.	4.00	3.25	3.33	3.33
My chief audit executive effectively promotes the value of our internal audit activity within our organization.	3.00	3.00	3.00	3.64
Our internal audit activity staff is fully aware of, and completely conforms with, both the Principles and the Rules of Conduct that comprise the Code of Ethics established by The Institute of Internal Auditors (IIA).	4.00	3.38	3.44	3.59
Our internal audit activity staff is fully aware of, and completely conforms with, The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) relating to objectivity and due professional care and the Code of Ethics.	3.00	3.50	3.44	3.56
Our internal audit activity has a conflict-of-interest policy to report any perceived or actual issues that may have an influence on the independence and objectivity of the auditors.	4.00	3.38	3.44	3.53

LEGEND

Group 1 = CAE (1 of 1 respondent)

Group 2 = Internal Audit Department (8 of 8 respondents)

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
IA activity staff and management communicate effectively (oral, written, and presentations).	4.00	3.50	3.56	3.43
Our audit assignments provide internal audit activity staff with opportunities to develop adequate knowledge of key business processes, including critical success factors.	4.00	3.38	3.44	3.46
I have sufficient knowledge of key IT risks and controls to perform my audit engagements.	3.00	3.00	3.00	3.20
I have sufficient knowledge of fraud to identify "red flags" indicating possible fraud when planning my audit engagements.	3.00	3.25	3.22	3.36
Our internal audit activity management provides me with ample opportunities to develop the skills and knowledge necessary to perform all of my audit engagements.	4.00	3.50	3.56	3.41
Our internal audit activity management provides me with ample opportunities to develop skills and knowledge and acquire experience that enable me to develop professionally and advance my career.	4.00	3.38	3.44	3.38
I have ample opportunity to enhance my knowledge, skills, and competencies through in-house training sessions and/or outside seminars.	4.00	3.63	3.67	3.39
My performance is reviewed on a regular and sufficiently frequent basis, the criteria used are adequate, and the reviews are meaningful and helpful.	3.00	3.13	3.11	3.32
Our internal audit activity management encourages and supports internal audit activity staff in demonstrating its proficiency by obtaining appropriate professional certifications such as designations offered by The IIA or other designations related to internal auditing.	4.00	3.63	3.67	3.54
Our internal audit activity is viewed as a valuable developmental assignment by individuals from other parts of our organization.	4.00	3.17	3.29	3.26

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity management has established policies and procedures that clearly guide the operation of our internal audit activity.	3.00	3.00	3.00	3.49
Our internal audit activity actively encourages collaborative effort between internal audit management and staff to effectively complete our engagements in a timely manner.	3.00	3.25	3.22	3.47
Our internal audit activity competently assesses the adequacy and effectiveness of our organization's system of internal controls.	3.00	3.29	3.25	3.49
Our internal audit activity adequately assesses the effectiveness of risk management processes employed by management to achieve our organization's objectives.	3.00	3.33	3.29	3.40
Our internal audit activity effectively promotes appropriate ethics and values broadly across our total organization.	3.00	3.25	3.22	3.57
Our internal audit activity adequately assesses the effectiveness of governance processes, including ethics-related programs and activities.	3.00	2.83	2.86	3.42

LEGEND

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Stakeholder Feedback

INTERNAL AUDIT MANAGEMENT AND STAFF SURVEY RESULTS (DETAIL)

Internal Audit Staff	1	2	AVG	UNV
Our internal audit activity develops and documents a plan for each engagement based on a preliminary assessment of risks relevant to the area being reviewed (including the probability of fraud), and our engagement objectives reflect the result of this risk assessment.	3.00	3.13	3.11	3.54
Our internal audit activity uses computer-assisted audit techniques, including data mining, to facilitate data collection and analysis during completion of our engagements.	4.00	3.00	3.11	3.17
I receive appropriate, timely, and constructive feedback regarding my performance in completing engagements, enabling me to continue developing my knowledge, skills, and competencies.	3.00	3.25	3.22	3.29
Our internal audit activity management and staff exhibit proficient project management and organizational skills to assure the timely completion of our audit engagements.	3.00	2.75	2.78	3.29
Our internal audit activity management and staff demonstrate effective conflict resolution and negotiating skills.	3.00	3.14	3.13	3.35

LEGEND

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All information included in this report is proprietary and confidential and is intended for internal use only. This report may not be distributed to any other third-party (other than your regulator, Audit Committee, or external auditor) without the prior written consent of IIA Quality Services, LLC.

IIA Quality Services, LLC | 1035 Greenwood Boulevard, Suite 401, Lake Mary, FL 32746 | www.theiia.org/quality | quality@theiia.org

STATEMENT OF WORK

GENERAL SCOPE

The External Quality Assessment (EQA) shall include benchmarking activities and the identification and reporting of leading practices to enhance the efficiency and effectiveness of LACERA's Internal Audit Activity.

The assessment shall evaluate the Internal Audit Activity's conformance with The Institute of Internal Auditors (IIA) Code of Ethics and applicable Standards, including a review of governing documents, policies, procedures, and selected audit workpapers. The IIA Quality Assessment Manual shall be utilized to guide the assessment and support evaluation of the following areas:

- Governance processes, including those involving executive management and the Boards
- Enterprise risk management processes
- Organizational control environment established by executive management
- Opportunities for advisory and consulting services
- Operations of the Internal Audit Activity, including perspectives from the Chief Audit Executive (CAE) and key stakeholders

ASSESSMENT ELEMENTS

The External Assessor shall evaluate, at a minimum, the following elements of the Internal Audit Activity:

- CAE reporting lines and quality assurance framework
- Organization and structure of the Internal Audit Activity
- Risk assessment methodology and engagement planning processes
- Professional proficiency and development of audit staff
- Information technology audit capabilities
- Productivity, performance, and value delivery
- Selected audit workpapers and reports
- Interviews with the ACRE Committee Chair and Committee members
- Interviews with executive and senior management
- Interviews with Internal Audit staff
- Interviews with external auditor

KEY PROCEDURES

As part of the EQA, the External Assessor shall perform the following procedures:

- Provide an independent opinion on the Internal Audit Activity's conformance with the IIA Standards and Code of Ethics
- Assess the design and effectiveness of the Quality Assurance and Improvement Program (QAIP)
- Evaluate compliance with applicable laws, regulations, and governance requirements
- Assess the effectiveness of the Internal Audit Activity in relation to its charter, stakeholder expectations, and organizational objectives
- Identify leading practices and opportunities to enhance the Internal Audit Activity's value and impact
- Evaluate coordination with governance stakeholders, including enterprise risk management
- Assess the methodology used to develop the audit universe and risk-based audit plan

- Evaluate resource adequacy, including information technology audit capabilities, to ensure appropriate audit coverage
- Assess staff qualifications, professional development, and use of audit tools and methodologies
- Evaluate stakeholder perceptions through surveys and interviews
- Identify opportunities to enhance policies, practices, and coordination with external auditors

DELIVERABLES

The External Assessor shall provide the following deliverables:

- A detailed project plan, including timelines and periodic status updates to the Project Coordinator and relevant stakeholders
- A preliminary summary report outlining key observations and themes
- A final External Quality Assessment report, including detailed findings, conclusions, and recommendations for organizational improvement
- A formal presentation of the results to the LACERA ACRE Committee

REPORTING

All reports and presentations shall be written in a clear, objective, and professional manner suitable for review by executive management and the ACRE Committee. Findings and recommendations shall be supported by sufficient, reliable, and relevant information.



ATTACHMENT D

Internal Audit Division External Quality Assessment

Presented by:

Leisha E. Collins, Chief Audit Executive

Why EQAs Are Conducted



*The Auditors
Will Be
Audited!*

Mandatory IIA Standard

- The External Quality Assessment (EQA) is a requirement under the IIA Global Standards (Standards) which mandate that the Internal Audit function undergo an independent assessment at least once every five years.

Validation of Audit Quality

- EQA provides independent validation that Internal Audit effectively supports governance, risk management, and controls.

Governance and Oversight Reinforcement

- EQA supports the ACRE Committee's oversight by verifying Internal Audit's authority, independence, and objectivity.

Stakeholder Confidence Building

- EQA strengthens stakeholder trust by demonstrating Internal Audit delivers reliable assurance and advisory services.

Why EQAs Are Conducted



The EQA will be a comprehensive evaluation of the Internal Audit Division

The EQA assesses:

- Conformance with the IIA Global Internal Audit Standards
- Alignment with LACERA's governance, risk management, and control frameworks
- Effectiveness of risk-based audit planning
- Quality and consistency of audit engagements and reporting
- The adequacy of internal audit resources, skills, and structure
- Stakeholder perceptions of the Internal Audit Division, including executive management and the ACRE Committee

Independent Assessment



The EQA is conducted by an independent assessor with no conflicts of interest

In accordance with the Standards and best practices, the EQA is conducted by an assessor that is independent from LACERA and its governance structure and demonstrates:

- Competence in both the professional practice of internal auditing and the external assessment process
- Knowledge of the IIA Global Internal Audit Standards
- Experience performing External Quality Assessments
- Deep expertise in public sector Conformance with the IIA Global Internal Audit Standards

Independent Assessment

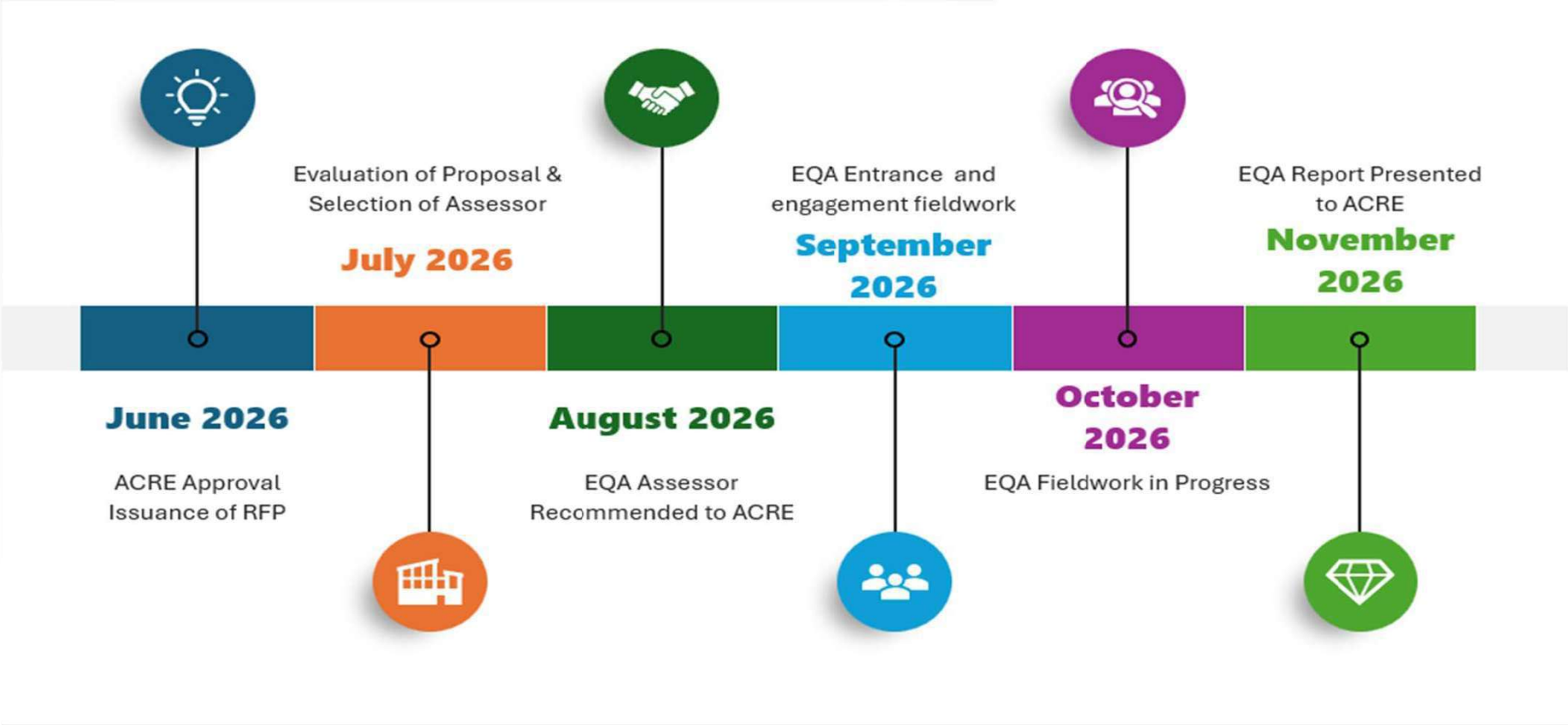


The RFP Process will be used to select the EQA assessor

The RFP Process will include:

- An evaluation team composed of Internal Audit and the Executive Office, will be established to review proposals and select a consultant to conduct the EQA.
- Staff also recommends including either a Committee member or the Audit Consultant on the evaluation team.
- The selected consultant will be recommended to the Committee.

EQA Engagement Timeline (Tentative)



Questions






May 15, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin, (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Delfino Aguilar 
Senior Internal Auditor

Alex Ochoa 
Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Public Disclosure Forms Audit**

RECOMMENDATION

In accordance with your current ACRE Committee Charter, staff recommends that the ACRE Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings, and/or
4. Provide further instruction to staff.

ENGAGEMENT REPORT

Public Disclosure Forms Audit
(Report Issued on May 15, 2026)

Attachments:

- A. Public Disclosure Forms Audit Report
- B. Public Disclosure Forms Audit Presentation

DA:ao



LACERA INTERNAL AUDIT DIVISION

Public Disclosure Forms Audit

AUDIT PERFORMED BY:

Delfino Aguilar, Senior Internal Auditor

Alex Ochoa, Internal Auditor

May 15, 2026

AUDIT REPORT

Audit Name	Public Disclosure Forms
Responsible Division	Legal Division & Financial Accounting and Services Division
Audit Rating *	Opportunities for Improvement
Prior Audit Rating *	N/A
Prior Report Date	N/A

BACKGROUND

The Fair Political Practices Commission (FPPC) is a California regulatory agency responsible for enforcing the Political Reform Act, which aims to promote transparency and prevent conflicts of interest in government operations. In accordance with these guidelines, the FPPC requires designated public officials and employees to submit public disclosure forms detailing their economic interests, payments received by agencies, and appointments to public positions. Failure to comply with applicable filing and public access requirements may result in enforcement referrals, late filing fines, and administrative penalties, which can range from \$5,000 per violation as well as daily fines of \$10 per day. This can also expose LACERA to reputational risk through reduced transparency and public scrutiny.

LACERA's Legal Office is responsible for ensuring compliance with the FPPC and that the following public disclosure forms are made available to the public either through the organization's website or upon request:

Form 700 – Statement of Economic Interests: This form requires designated public officials and employees to disclose their financial interests, such as investments, real property, and income. Its purpose is to promote transparency and accountability among public officials by requiring them to disclose their financial interests to the public and serve as a reminder to officials of potential conflicts of interest so the official can abstain from making or participating in governmental decisions that are deemed conflicts of interest and ensure officials are making decisions in the best interest of the public and not enhancing their personal finances.

Form 801 – Payments to Agency: This form documents payments made to a public agency for travel expenses of public officials or other payments that would otherwise be considered a gift or income to the public official. It is posted publicly to provide transparency regarding agency funding and prevent improper influence.

Form 806 – Agency Report of Public Official Appointments: This form lists the compensation and appointments of officials to boards, commissions, or committees. It is intended to inform the public about who is serving in these roles and any stipends or payments they receive.

In addition to the aforementioned Public Disclosure Forms, the audit also considered compliance with applicable post-government restrictions commonly referred to as Revolving Door Rules, which are intended to limit certain activities after leaving public service and reduce the risk of undue influence over decisions with which they were previously involved in during their tenure.

* See Appendix 1 for Audit Rating

A Filing Officer within LACERA's Legal Office administers the Public Disclosure Forms program, including filer notifications, public access, and the review of submitted forms for completeness and identified omissions. During the audit period, Legal implemented and used an electronic file management system and supporting desk procedures to improve timeliness, tracking, and consistency in meeting FPPC filing and posting obligations.

AUDIT OBJECTIVE & SCOPE

The purpose of this audit was to evaluate the adequacy and effectiveness of controls in place to ensure that the Public Disclosure Forms are filed in compliance with FPPC regulations, applicable laws, and internal LACERA-related policies.

After preliminary research and analysis, including an engagement-level risk assessment, the audit objectives were to:

- Assess overall compliance with FPPC Regulations, applicable laws, and LACERA's internal policies, procedures, and the Conflict-of-Interest (COI) Policy.
- Required disclosure forms are collected and submitted in accordance with FPPC's deadlines.
- Verify that all required forms and schedules are submitted in their entirety.
- Assess whether submitted forms are reviewed for accuracy and reasonableness.
- Assess if the required forms are posted and made available to the public within the required timeframes.
- Evaluate whether Legal tracks filing compliance, escalates delinquent filings when necessary, and enforces accountability.
- Determine if officials receive guidance and training on disclosure requirements and their reporting obligations.

The scope of this engagement included the evaluation of LACERA's processes and controls over the distribution, collection, review, posting, and retention of FPPC Disclosure Forms and compliance with the Revolving Door Rule from January 1, 2023, through July 31, 2025.

The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. This included, as required by Standard 13.3., whether any scope limitations existed during the audit period.

AUDIT RATING & SUMMARY OF FINDINGS

Our audit observations and testing indicate that the control framework, design, and processes implemented by the Legal Office are working effectively to address FPPC requirements. Furthermore, there is a sound control environment and effective oversight. However, given the medium-rated audit findings, we determined the overall audit rating to be "**Opportunities for Improvement.**" The findings specifically relate to strengthening internal procedures for supporting documentation associated with Form 801, as well as the need for additional training for both staff and trustees to enhance understanding of and compliance with the requirements of Forms 700 and 801. There were no reportable issues with regards to Form 806.

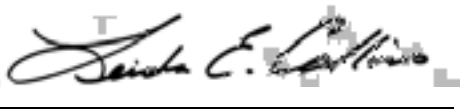
Summary of Findings

Finding #	Page	Finding Title	Risk Rating**
F1	4	Enhancements to Form 801 Documentation and Monitoring Process	Medium
F2	6	Develop a Formalized Training Program for Public Disclosure Forms	Medium

Each of the above Findings is detailed in the following pages, including our Recommendations and Management Action Plans. Refer to Appendix 3 for a full listing of audit objectives and results.

We would like to thank the Legal Division and the Financial and Accounting Services Division for their cooperation with this audit.

REVIEWED AND APPROVED



Date: May 15, 2026

Leisha E. Collins
 Chief Audit Executive

REPORT DISTRIBUTION

2026 ACRE Committee	Luis Lugo, CEO	J.J. Popowich, AEO
Larry Jensen, ACRE Committee Consultant	Steven Rice, Chief Legal Counsel	Jessica Baxter, AEO
Internal Audit Group	2026 CLA Audit Team	Jessica Rivas, Staff Counsel Filing Officer

* See Appendix 2 for Findings Risk Rating Scale

Finding # 1

Enhancements to Form 801 Documentation and Monitoring Processes	Risk Rating: Medium
	Disposition: Reportable

Regulatory and LACERA-Related Background: In accordance with FPPC Regulations 18944 and 18950.1, Form 801, state and local agencies, such as LACERA, are to disclose certain payments received from third parties that are used for agency purposes. These are payments that otherwise would be reported on Form 700 as a gift or income. The regulations allow agencies to treat such payments as “payments to agency” if specific conditions are met.

FPPC Regulations governing Form 801 are intended to provide transparency when a third party provides payment to, or on behalf of, a public agency for official business. In general, the Form 801 framework distinguishes agency-related payments from benefits that would otherwise be treated as a reportable gift or income to an individual official. This distinction is important because misclassifying or inadequately supporting the nature of a payment can create compliance exposure and increase the likelihood of questions from external parties regarding whether a payment was appropriately treated as an agency payment.

In 2023, the Legal Office provided the Boards with an action plan that included staff training, and the implementation of new Desk Procedures relating to pre-approval of travel, communication before and after covered travel, collection of necessary information regarding the nature and cost of travel, and the quarterly posting and/or filing of Form 801.

Audit Observations:

Although significant progress has been made, there are opportunities to further enhance controls and processes governing Form 801.

To evaluate compliance and adequacy of supporting documentation revolving Form 801, we reviewed and tested sample filings during the audit period. We found LACERA’s supporting documentation for Form 801 contained some inconsistencies, particularly the evidence that third-party payments were properly controlled and reported and noted the following:

1. **Unclear Payment-Flow:** We identified 5 instances in which LACERA advanced funds or reimbursed travelers for expenses intended to be later recovered from third parties. It was unclear as to the timing, amounts, and whether funds were actually received by LACERA from the third parties.
2. **Authorization Memoranda Content Gaps:** Five Pre-approval Memoranda did not consistently align with the supporting documentation or clearly reflect who ultimately paid specific expenses. When the memorandum, invoices, and accounting support do not match, there is difficulty in substantiating the payment trail and to demonstrate that the payment was treated and documented consistently with Form 801 expectations.

To enhance controls, reduce inconsistencies, and minimize ambiguity in the interpretation of Form 801, supporting documentation should follow a structured approach. Management of the responsible divisions should jointly determine, document, and communicate clear ownership, decision rights, and handoffs for each step as outlined below. Although some of the items are already part of the procedures, as indicated below, the list is outlined for completeness and should include, at a minimum, the following key elements and documentation:

- Pre-trip approval in accordance with applicable policies, and as already required by the existing Desk Procedures
- Explicit documentation of any anticipated policy-permitted exceptions for unforeseen, but allowable exceptions, inclusion of a brief memo stating the rationale and authorization consistent with policy
- Clear documentation of the routing of all third-party payments, whether made directly to the vendor or through LACERA
- Inclusion of conference or training schedules and brochures
- Detailed itemization of meal costs, supported by receipts or a good-faith estimate based on Fair Market Value (FMV)
- Receipt documentation for all lodging, travel, and meals, as already required by Desk Procedures
- Post-trip documentation, such as invoices to third parties and confirmation of payment receipt from FASD, along with proof of payment receipt from third parties
- A reconciled payment trail, including invoicing, documented closure from FASD, and submission to Legal for verification
- Documentation of Legal Office verification— essential for substantiating the purpose of Form 801, ensuring that payments to the agency are properly documented and reported

RISK

Inconsistencies and gaps in documentation maintained by LACERA to support compliance could expose LACERA to compliance risk under FPPC Regulations 18950.1 and 18944; these risks include enforcement scrutiny and potential administrative penalties. These inconsistencies in supporting documentation could also expose LACERA to reputational risk due to a perceived lack of due diligence and transparency.

RECOMMENDATION

Legal Office Management should establish standardized procedures to resolve the gaps identified in this audit. The procedures should describe the required Form 801 documentation, detail payment routing and filing requirements. The Procedures should also clearly define roles and responsibilities for each division involved in the process.

Management's Response

Agrees with Finding and Recommendation. Management agrees that there are areas for the Legal Office, and FASD in the case of routing payments, to refine the largely successful and effective plan developed, reported to the Board in 2023 and thereafter, by implementing the enhancements listed in the Audit Observations and Recommendation above.

Target Completion Date: September 30, 2026

Finding # 2

Develop a Formalized Training Program for Public Disclosure Forms	Risk Rating: Medium
	Disposition: Reportable

OBSERVATION

Government Code Section 53234 mandates training on the process for preparing and filing public disclosure forms for local agency officials. Although LACERA does not fall under the purview of this government code section, the Legal Office, in their proactive efforts and to align with best practices, are working to provide training to both Trustees and employees.

Based on our discussions with the Legal Office and review of the supporting documentation, Legal Office staff provided the last formal training on Form 801 to LACERA-covered employees (i.e., employees outlined in the COI Policies) in the Investment Office in February 2023; a presentation on Form 801 and the action plan to ensure compliance was also made in early 2023 to both Boards. On a quarterly basis, Legal staff also contacts all division managers and relevant staff to obtain information and determine if Form 801 is needed. To further strengthen compliance, a formal and cadenced training schedule should be implemented for both Trustees and LACERA-covered employees.

Currently, the Legal Office provides assistance in answering questions by Trustees and staff and also refers them to the FPPC website and written guidance when questions arise. They also provide specific citations to the applicable regulations. The Legal Office’s Public Disclosure Forms Program could be further strengthened by establishing the following:

- Defining a training schedule and cadence.
- Developing a role-appropriate curriculum that emphasizes Trustees’ fiduciary duties, requiring mandatory participation for Trustees and LACERA-covered employees.
- Maintaining formal and centralized tracking of attendance and training materials with retention sufficient to demonstrate compliance.
- Assigning ownership and administration of the training program.
- Conducting periodic training updates to ensure continued alignment with current FPPC regulations, LACERA policies, and applicable procedures.

Note: Based on the usage and capabilities of LACERA’s Learning Management System (LMS) (e.g., NeoGov), it can be used to automate enrollment, create tailored training based on responsibilities and roles, reminders, and recordkeeping to facilitate the implementation of this mitigating control and regulatory requirement.

RISK

Without consistent and documented training, LACERA cannot ensure that Trustees and employees subject to LACERA are fully informed of current requirements. This gap may lead to filers inadvertently contributing to non-compliance with regulations and could expose staff and Trustees as well as LACERA to FPPC inquiries and reputational risk.

RECOMMENDATION

1. In addition to the current plan for regular training to Trustees and employees, the Legal Office should establish an organizational-wide training program for individuals required to complete disclosure forms or involved in the process. This training could be included in other training provided on the Code of Ethical Conduct or other ethics-related training.
2. The Legal Office Management should track attendance and retain training materials per FPPC Regulations and establish a schedule for updates.

Management's Response

Agrees with the *Finding and Recommendation*. Management agrees that there are opportunities for training enhancement in line with the Audit Observations and Recommendation above. Core Board and staff training, including training on disclosure forms and related matters, will be included in a legal presentation at the Board of Retirement offsite meeting on May 18, 2026. Staff will undertake additional steps to implement training in line with the Audit Observations and Recommendation.

Target Completion Date: December 31, 2026

APPENDIX 1 AUDIT RATING SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks, and the impact may be substantial in size, nature, or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

APPENDIX 2 FINDINGS RISK RATING SCALE

Findings identified during the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or Members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance or misappropriation</p>	<p>Non-Compliance with applicable Federal or State laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing/enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or State laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>

APPENDIX 3

Management Supplemental Information

Audit Results Dashboard – Public Disclosure Forms and Revolving Door Rule		
Audit Objectives	Associated Control Attributes Tested	Test Results
Objective 1: Regulatory and Policy Compliance		
Assess whether LACERA's disclosure form processes comply with FPPC requirements, relevant laws, and LACERA Policies.	The Legal Office maintains a formalized disclosure form review and tracking process to support compliance with FPPC requirements.	No Exceptions
Objective 2: Timely Collection		
Assess controls that ensure disclosure forms are requested, collected, submitted by FPPC deadlines; and identification and treatment of late filings.	<p>The Legal Office uses DisclosureDocs to monitor Form 700 due dates, filing status, and to generate automatic reminders and delinquency notifications.</p> <p>The Filing Officer manually monitors and completes Forms 801 and 806 and reviews prior to posting.</p>	No Exceptions
Objective 3: Completeness of Submission		
Verify required forms, schedules, and attachments are submitted and tracked for missing or incomplete filings.	<p>Forms 700 are reviewed post-submission to confirm timeliness and completion of required review steps.</p> <p>Forms 801 and 806 are reviewed by the Filing Officer before being posted on LACERA.gov.</p>	No Exceptions
Objective 4: Accuracy of Information		
Verify Forms 801 and 806 are reviewed for accuracy, consistency, and traced to source documents.	The Filing Officer reviews Forms 801 and 806 Forms to identify incomplete or incorrect information prior to finalization or posting.	Exception: Refer to Finding #1

Objective 5: Public Accessibility and Transparency		
Ensure Forms 801 and 806 are posted on LACERA's public website timely.	<p>Forms 700 are initiated through a standardized digital workflow.</p> <p>Forms 801 and 806 are reviewed prior to posting under established procedures.</p>	No Exceptions
Objective 6: Monitoring and Oversight		
Assess that Legal has proper monitoring controls, and follow-up procedures.	<p>DisclosureDocs generates automatic deadline reminders and non-filing notifications.</p> <p>Forms 801 and 806 are completed via manual workflows and follow-ups are sent to divisions to ensure any relevant information is obtained.</p>	No Exceptions
Objective 7: Training and Awareness		
Determine if officials and staff receive regular training on filing duties, reporting limits, and FPPC rules.	Assess current training practices of the requirements of Public Disclosure Forms to evaluate their effectiveness.	<p>Exception: Refer to Finding #2</p>

Public Disclosure Forms Audit

Audit Report Date: May 15, 2026

Presented by:

Delfino Aguilar, Sr. Internal Auditor

Alex Ochoa, Internal Auditor

Summary of Engagement



Responsible Divisions:	Legal Office and Financial & Accounting Services Division (FASD)
Type of Engagement:	Assurance
Audit Rating:	Opportunities for Improvement

Type of Engagements

Assurance: Assurance Engagements provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the ACRE Committee on governance, risk management, and control processes for LACERA.

Advisory: Advisory services provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Other Value-Added Services: Provide Management with informal advice.

Purpose, Objective, Scope



Purpose

To assess compliance with California Fair Political Practices Commission (FPPC) Regulations that guide and dictate Forms 700, 801, and 806 along with compliance with the “Revolving Door Rule” for covered-employees and Officials.

Objectives:

- Required disclosure forms are collected and submitted in accordance with FPPC’s deadlines.
- Verify that all Required forms and schedules are submitted in its entirety.
- Assess whether Submitted forms are reviewed for accuracy and reasonableness.
- Assess if the Required forms are posted and made available to the public within the required timeframes.
- Evaluate the Legal Office process for filing compliance, escalation reporting, and enforcement.
- Determine if Officials receive guidance and training on disclosure requirements and their reporting obligations.
- Assess overall compliance with FPPC Regulations, applicable laws, and LACERA’s internal policies, procedures, and the Conflict-of-Interest Policies.



Scope

The scope of this engagement encompasses the processes and controls surrounding the compliance with FPPC Regulations for Public Disclosure forms that were completed between January 1, 2023, through July 31, 2025.

Summary of Findings & Management Responses



Finding #	Title of Finding	Rating	Management Response
1	<p>Enhancements to Form 801 Documentation and Monitoring Processes</p>	<p>Medium</p>	<p><i>Agrees with Finding and Recommendation.</i> Management agrees that there are areas for the Legal Office, and FASD in the case of routing payments, to refine the largely successful and effective plan developed, reported to the Board of Investments in 2023 and thereafter, by implementing the enhancements listed in the Audit Observations and Recommendation above.</p>
2	<p>Develop a Formalized Training Program for Public Disclosure Forms</p>	<p>Medium</p>	<p><i>Agrees with Finding and Recommendation.</i> Management agrees that there are opportunities for training enhancement in line with the Audit Observations and Recommendation above. Core Board and staff training, including training on disclosure forms and related matters, will be included in a legal presentation at the Board of Retirement offsite meeting on May 18, 2026. Staff will undertake additional steps to implement training in line with the Audit Observations and Recommendation.</p>

Conclusion



- **Audit Independence and Objectivity**

The audit was conducted independently and objectively following the IIA Code of Ethics and Standards.

- **Overall Audit Rating**

Overall, the Legal Office demonstrates a strong control environment with effective oversight and the capacity to achieve its divisional objectives; however, given the **medium-rated** findings, the overall audit rating is assessed as “Opportunities for Improvement.”

Thank you



We would like to thank the Legal Office and the Financial and Accounting Services Division for their cooperation on this engagement.





May 14, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin, (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fester (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Gabriel Tafoya 
Senior Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ended June 30, 2025**

RECOMMENDATION

In accordance with your current ACRE Committee Charter, staff recommends that the ACRE Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings, and/or
4. Provide further instruction to staff.

ENGAGEMENT REPORT

Los Angeles County's Compliance with Requirements for Rehired Retirees
(Report Issued on May 14, 2026)

Attachments:

- A. Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ended June 30, 2025 (Report)
- B. Los Angeles County's Compliance with Requirements for Rehired Retirees - Fiscal Year Ended June 30, 2025 (Presentation)

GT



LACERA INTERNAL AUDIT DIVISION

**Los Angeles County's Compliance with Requirements
for Rehired Retirees – Fiscal Year Ended June 30, 2025**

AUDIT PERFORMED BY:

Gabriel Tafoya, Senior Internal Auditor

May 14, 2026

AUDIT REPORT

Audit Name	Los Angeles County's Compliance with Requirements for Rehired Retirees - FYE June 30, 2025
Responsible Division	Executive Office
Audit Rating	Opportunities for Improvement
Prior Audit Rating	Opportunities for Improvement
Prior Report Date	November 15, 2024

BACKGROUND

As part of Internal Audit's FYE2026 Audit Plan, we conducted an audit of Los Angeles County's (County) compliance with requirements for hiring County Retirees (rehired retirees) for fiscal year ended June 30, 2025. We perform this audit annually as failure to adhere to the regulations and requirements violates the state law governing retirement benefits. Furthermore, non-compliance could jeopardize LACERA's qualified tax deferred status, under federal tax law, since LACERA is responsible for paying benefits only to rehired retirees whose re-employment is compliant.

Under California's County Employees Retirement Law of 1937 (CERL) and the Public Employees' Pension Reform Act of 2013 (PEPRA) the County may choose to employ rehired retirees subject to certain requirements. Under Government Code Section 31680.3 of CERL and Section 7522.56, rehired retirees may work up to 960 hours per fiscal year, and for a limited duration, without affecting their retirement status or benefits.

Additionally, the Internal Revenue Service (IRS) stipulates that retirees who have not reached "normal retirement age" must undergo a bona fide break in service before reemployment is permitted. The LACERA Board of Retirement defines "normal retirement age" as follows:

- Age 57 for general members of Plan A, B, C, D, or G
- Age 65 for general members of Plan E
- Age 55 for safety members

To comply with the IRS regulation, in 2006 LACERA's Board of Retirement adopted a resolution stating that all rehired retirees under their "normal retirement age" must comply with a minimum 90-day break-in-service requirement. Additionally, they are required to ensure there has been no prearranged return to County employment and adhere to all PEPRA requirements.

Subsequently, PEPRA imposed an additional restriction requiring retirees to wait 180 continuous days from their retirement date before they can be rehired. However, PEPRA does allow the following two limited exceptions to the 180-day requirement:

1. If the employer can certify it is necessary to fill a critically needed position and the hiring has been approved by the Board of Supervisors (or the Board of Retirement, for LACERA positions) in an open meeting.
2. If the retiree is a public safety officer or firefighter.

Those eligible for the PEPRA 180-day break-in-service exceptions still must comply with the IRS's "bona fide" break-in-service of 90 days if under normal retirement age. In the event of a conflict between the CERL and PEPRA provisions, PEPRA's requirements take precedence over CERL.

PEPRA section 7522.56 (c) provides that appointing employers may only rehire retirees either during an emergency to prevent stoppage of public business or because the rehired person has skills needed to perform work of "limited duration". The limited duration requirement is in addition to and separate from the 960-hour per fiscal year requirement.

The County has taken additional measures to strengthen its controls for managing rehired retirees. The County's Department of Human Resources (DHR) partnered with the County's Chief Executive Office, and in consultation with LACERA, revised the Countywide Policies, Procedures, and Guidelines (PPG-505), *Appointment of Retirees to a 120-Day Temporary Assignment*. PPG-505 became effective on October 16, 2024, and further refines the requirements of rehired retirees as authorized by PEPRA. Notable revisions to this policy include:

- Providing a process for annual renewal by the CEO.
- Providing that an appointment "shall be limited in duration and to a position on a temporary basis that requires special skills or knowledge in which staff could not be easily prepared or trained, or to a critical position where expertise is unavailable elsewhere in the department."
- Adding clarifying language, contacts, and links throughout the policy.
- Adding the new monitoring procedure by which all departments employing 120-day retirees must provide written notification to the employee before they are within 10-business days or 80 hours of the time limits of the policy.
- Updating the required *Condition for Post-Retirement Employment and PPG-505 Waiver* with improved content and a fillable format that can be digitally signed.
- Providing a new *Frequently Asked Questions* document to address the common questions received by CEO and DHR regarding rehiring retirees.
- Providing a new template notice, titled *Appointment of Retiree to 120-Day Temporary Assignment Written Notice of Reported Hours* for departments to use to meet the notification requirements.
- Added a PPG-505 Waiver Form (Waiver Form). The purpose of the Waiver Form is to confirm that the employee understands, acknowledges, and agrees to the conditions required by the County for rehire.

AUDIT OBJECTIVE & SCOPE

As depicted in the table below, there continues to be a decline in the number of rehired retirees surpassing the 960-hour limit compared to previous years. This year, there were no individuals that exceeded the 960-hour limit. Internal Audit believes this decline is due to the proactive initiatives undertaken by LACERA management and staff, in conjunction with the ongoing partnership with the County CEO's office.

Fiscal Year Ended June 30	Rehired Retirees	Noncompliant Rehired Retirees	Noncompliance as a Percentage	Total Overage Hours	Average Overage Hours
2025	466	0	0%	0	0
2024	417	1	0.24%	5	5
2023	393	3	0.76%	32.5	11
2022	381	17	4.46%	964	57
2021	408	10	2.40%	1778	177

While progress has been made toward meeting the 960-hour limit, the audit rating of Opportunities for Improvement is unchanged from last year. Our audit still reveals concerns about the County’s compliance with the “limited duration” requirement. PPG-505 introduces important elements to strengthen process controls, including reference to the limited duration requirement, but the revised policy does not explicitly define the “limited duration” requirement by a period of years or other metric or standard—even though LACERA recommended their inclusion. Accordingly, we continue to note that the fiscal year 2021 audit finding remains open, as outlined below.

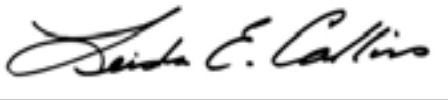
Summary of Finding

Finding#	Page	Description of Finding	Risk Rating**
F1	6	Continued Violation of PEPRA's "limited duration" language	High
F2	9	Missing PPG-505 Waiver Forms	Medium

The following pages cover the findings, our recommendations, and the Management Action Plans.

We noted no issues of noncompliance with regards to the PEPRA 180-day break-in-service requirement or the IRS 90-day break-service requirement.

REVIEWED AND APPROVED



Date: May 14, 2026

Leisha E. Collins
 Chief Audit Executive

REPORT DISTRIBUTION

2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee	Luis A. Lugo, CEO	J.J. Popowich, AEO
Steven P. Rice, Chief Legal Counsel	2025 CLA Audit Team	Jessica Baxter, AEO
Larry Jensen, ACRE Consultant		

** See Appendix 2 for Finding's Risk Rating

FINDING #1

Continued Violation of PEPRA's "limited duration" language

Risk Level **
High

OBSERVATION

We used data from the Auditor-Controller covering the past 15 years to organize rehired retirees based on their continuous years of employment. The table on page 7 provides information about the 466 rehired retirees who were active during the fiscal year ending June 30, 2025. It shows each retiree's department, the total consecutive years worked, and the average hours worked per department in FYE 2025. Refer to Appendix A for additional details on limited duration yearly comparisons.

Los Angeles County's Compliance with Requirements for Rehired Retirees – FYE June 30, 2025

May 14, 2026

Page 7 of 17

County Department	Continuous Years as a Rehired Retiree															Total Rehired Retirees FYE 2025	Average Hours FYE 2025 Per Rehired Retiree
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15		
Alt Public Defnd	1	2		1		1		1								6	537
Workforce Dev		4		2	1			1		1	2	1	1			13	560
Animal Control				1												1	875
Chief Exec Office	4	2	3	4	1	1		1						1		17	608
Assessor	9	3	8	5		4		1	1	2	1	3	2		5	44	543
Auditor-Cntr	2	1	2	1		2					1	1			1	11	561
Agri Comm/Wts		1										1				2	135
Beaches and Hr			1	1												2	263
Board of Supv	4	1	1	1		1							1	1	1	11	593
Community Svcs	1															1	393
Chldrn Fam Svcs	16	6	12	5	2	4		5	1	2	2	3	1		3	62	651
District Atty 1	21	11	4	4	2	1	1	1			3	3	1	2	2	56	540
District Atty 2		1														1	16
Fire Dept		1	1												1	3	529
Coastal C-Harb	1															1	783
LAC USC Med Ct	1			1												2	531
Harbor UCLA	1		1													2	198
HR	2	1	2					1				1	1		2	10	526
Health Svcs Adm		2														2	775
Internal Services 1	1		2	2												5	707
Internal Services 2			1		1											2	466
Mental Health	1	1														2	124
LACERA						2						1				3	911
Probation	4	1	2	1	1							2	1	1		13	530
Public Defender	10	6	3	2	1					1		1	1		6	31	549
Public Health	2	3	1	1	1				1					1		10	572
Parks and Rec		2	3		1					1	1					8	619
Public Library		1	1													2	512
Public Works		2	1	1					1	1	1	1	1			9	630
Regional Plannng								1								1	932
Register-Record	3	2						1								6	299
Superior Court	1	1	2	3	1	2			1							11	490
Sheriff	29	22	10	6	3	7		3	4	5	2	4	7	2	5	109	576
Dept Pub Soc Sv	3		1					1			1					6	719
Dept Youth Dev						1										1	782
Total	117	77	62	42	15	26	1	17	9	13	14	22	17	8	26	466	19,033

LACERA is concerned that this situation may violate PEPRA section 7522.56 (c) which states, "A person who retires from a public employer may serve without reinstatement from retirement or loss or interruption of benefits provided by the retirement system upon appointment by the appointing power of a public employer either during an emergency to prevent stoppage of public business or because the retired person has skills needed to perform work of **limited duration.**"

The County does not provide LACERA with sufficient information to assess the individual circumstances of each department and the assignments of each rehired employee to determine if there is a rationale for the duration of their post-retirement employment. If it is determined that an extended duration violation has occurred, LACERA, as benefit trust fund administrator, could proceed with recovery of trust funds for benefits paid during the period of excessive, unlawful work duration.

It is important to note that the LACERA Board of Retirement has adopted the Post Retirement Employment Policy for LACERA employees. This policy outlines the limited duration requirement and establishes a procedure whereby the Board may approve rehired retirees under exceptional circumstances, following two years of Executive approval. The County could develop its own standard that would provide a defined approach to limited duration that recognizes the varied needs of different County departments.

RISK

The above chart highlights potential headline risk from noncompliance with PEPRA laws on rehired retirees which could suggest "double dipping". It also poses a risk to LACERA's qualified plan status under the Internal Revenue Code (IRC) if compliance as plan administrator is not maintained.

RECOMMENDATION

We restate our recommendation from our previous audit reports from fiscal years ending 2021 through 2024 that:

1. LACERA's Executive Office and Legal Office continue their discussions with the County regarding limited duration and whether policy provisions or practices can be added or strengthened to explicitly address the statutory requirement of limited duration.
2. LACERA's Executive Office and Legal Office work with the Board of Retirement to determine a more defined definition, tracking, and annual review of limited duration for County retirees, in addition to the current policy for LACERA employees, to ensure compliance with PEPRA and provide for recovery of benefits paid during periods worked in violation of PEPRA law.

Management's Response

Agree with Finding and Recommendation. Management will continue to communicate with the County CEO's Office, Department of Human Resources, and County Counsel regarding the need to comply with the "limited duration" requirement and whether policy provisions or practices can be added or strengthened to explicitly address the requirement. Management has previously discussed this issue with the Board of Retirement on several occasions. Management will return to the Board as needed.

Management supports continued annual audits of limited duration by Internal Audit as an effective means of communicating information about the County's compliance with the limited duration based on actual data as to the tenure of the County's rehired retirees by department. As part of future audits, Management suggests that Internal Audit obtain copies of all annual justifications so that explanations for extensions can be reviewed.

Target Completion Date: June 30, 2027

FINDING #2

PPG-505 Waiver Form Requirements as of October 16, 2024

**Risk Rating:
Medium**

OBSERVATION

PPG-505 Policy states that a Rehired Retiree hired after October 16, 2024, must complete a new PPG-505 Waiver Form (Waiver Form) each fiscal year. The Waiver Form is designed to confirm the employee's understanding, acknowledgment and acceptance of the County's rehire requirements. It states that County rehired retirees may work up to 960 hours per fiscal year. However, it does not specify if there is a restriction on the number of consecutive years a Rehired Retiree can continue working (Limited Duration).

The PPG-505 Waiver should be signed by the Rehired Retiree and hiring department's Human Resources (Human Resources Department) prior to Rehired Retiree start date. Furthermore, PPG-505, requires the Human Resources Department to maintain the completed Waiver Forms and send a copy to LACERA.

Waiver Forms submitted to LACERA are received in the Administrative Services Data Processing Center (DPC). DPC staff scan and upload the Waiver Forms into Rehired Retiree's Workspace account.

Among the 466 rehired retirees, 92 began their employment on or after October 16, 2024, and therefore requiring the Waiver Forms. As part of our audit work, we reviewed the 92 Waiver Forms to verify that they were completed and sent to LACERA in compliance with PPG-505 Waiver. We noted that LACERA did not receive seventy-two (72) out of ninety-two (92) Waiver Forms as required. Neither DHR nor LA County CEO staff could confirm completion or provide copies of the Waiver Forms.

We noted the following inconsistencies of the (twenty) 20 forms that were sent to LACERA:

- One (1) form lacked the second page, which should have included required signatures from both the rehired retiree and the Human Resources manager.
- Sixteen (16) forms were signed by the rehired retiree subsequent to their employment commencement date.

We also noted that formal, documented procedures for the receipt of Waiver Forms at LACERA do not exist. Procedures should be established including controls to ensure completeness of the Waiver Form and receipt, defined ownership for monitoring compliance, escalation protocols, and corrective actions when required PPG-505 Waivers are not received.

Given the proactive initiatives already undertaken by LACERA's Benefits Division to monitor rehired retirees and notify stakeholders as individuals approach the 960-hour service limitation, primary ownership of the PPG-505 Waiver compliance process should be formally assigned to the Benefits Division. Procedures should include:

1. Clear ownership and accountability for PPG-505 Waiver compliance monitoring, including designation of the role or unit within the Benefits Division responsible for verifying that a completed PPG-505 Waiver has been received for rehired retiree.
2. Implement a tracking and reconciliation control between County departmental Human Resources divisions and LACERA to ensure that all rehired retirees subject to the 120-day temporary assignment requirement have a corresponding PPG-505 Waiver on file.
3. Define escalation and follow-up protocols for instances in which required Waiver Forms are not received within a defined timeframe, including timely notification to County departmental HR divisions and, where appropriate, escalation to Benefits Division management or suspension of further processing.
4. Formally document the role of the Administrative Services Data Processing Center (DPC) by clearly defining its responsibility for document intake, scanning, and imaging, while distinguishing these activities from compliance monitoring and enforcement responsibilities assigned to the Benefits Division.
5. Conduct periodic management reviews to assess the completeness and effectiveness of the PPG-505 Waiver compliance process, ensure procedures are consistently applied, and confirm continued alignment with County policy requirements.

Overall, we determined that the Waiver Forms process has gaps in its controls and completeness, making it inefficient and ineffective at ensuring LACERA receives proper documentation for Rehire Retiree compliance. Additionally, the process lacks a specific requirement regarding Limited Duration.

RISK

Deficiencies within the Waiver Form indicate that the process may lack effectiveness, potentially diminishing rehired retirees' understanding of eligibility criteria and employment obligations.

RECOMMENDAION

Benefits Division management should establish procedures to address issues identified above in this audit report to ensure the timely receipt, monitoring, and retention of Waiver Forms.

Management's Response

The Benefits Division agrees with these recommendations. Benefits will develop a procedure and assign monitoring as recommended. Anticipated date of completion is December 31, 2026.

Target Completion Date: December 31, 2026

APPENDIX 1 AUDIT RATING SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks, and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

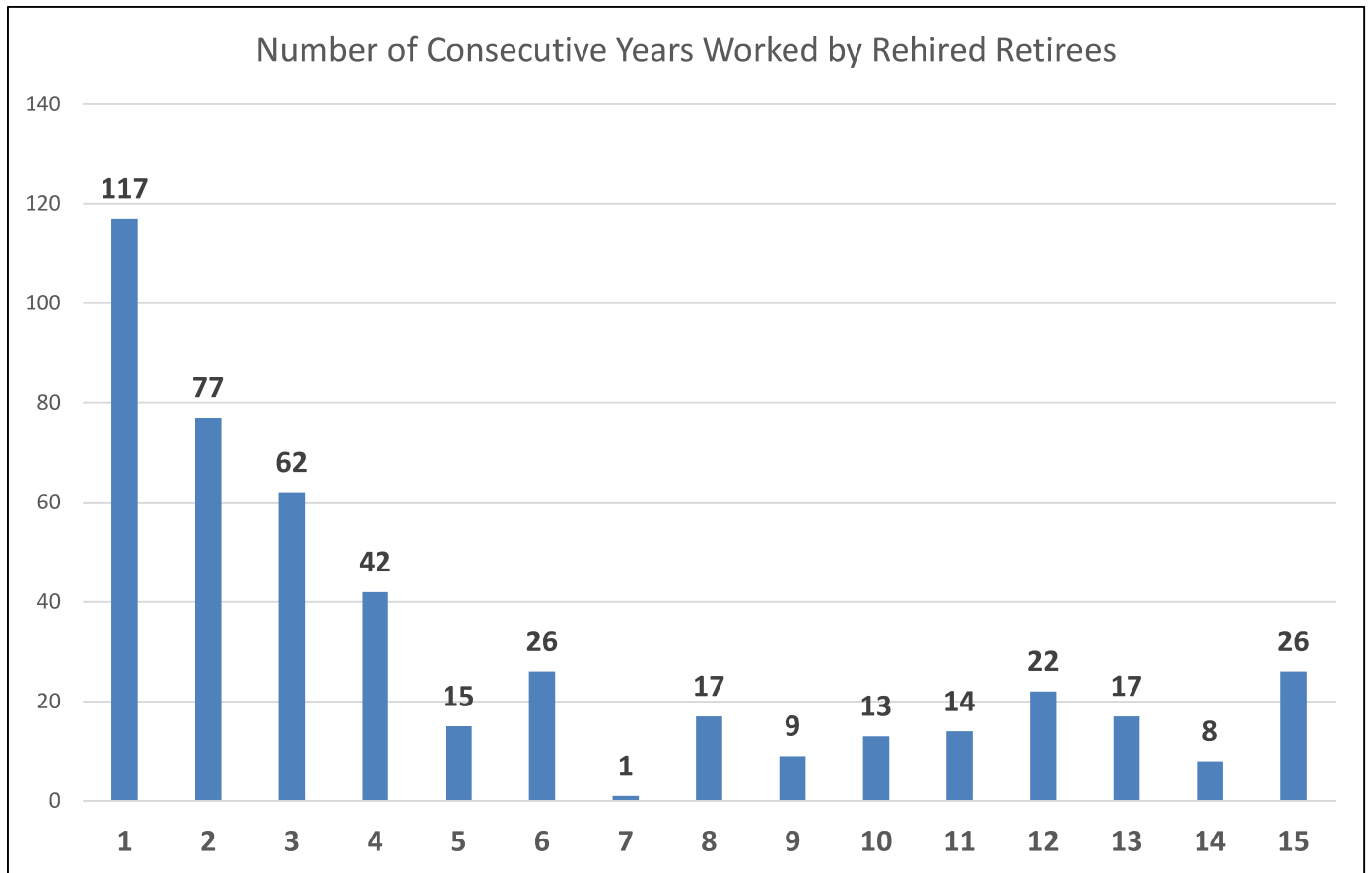
APPENDIX 2
FINDING'S RISK RATING SCALE

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

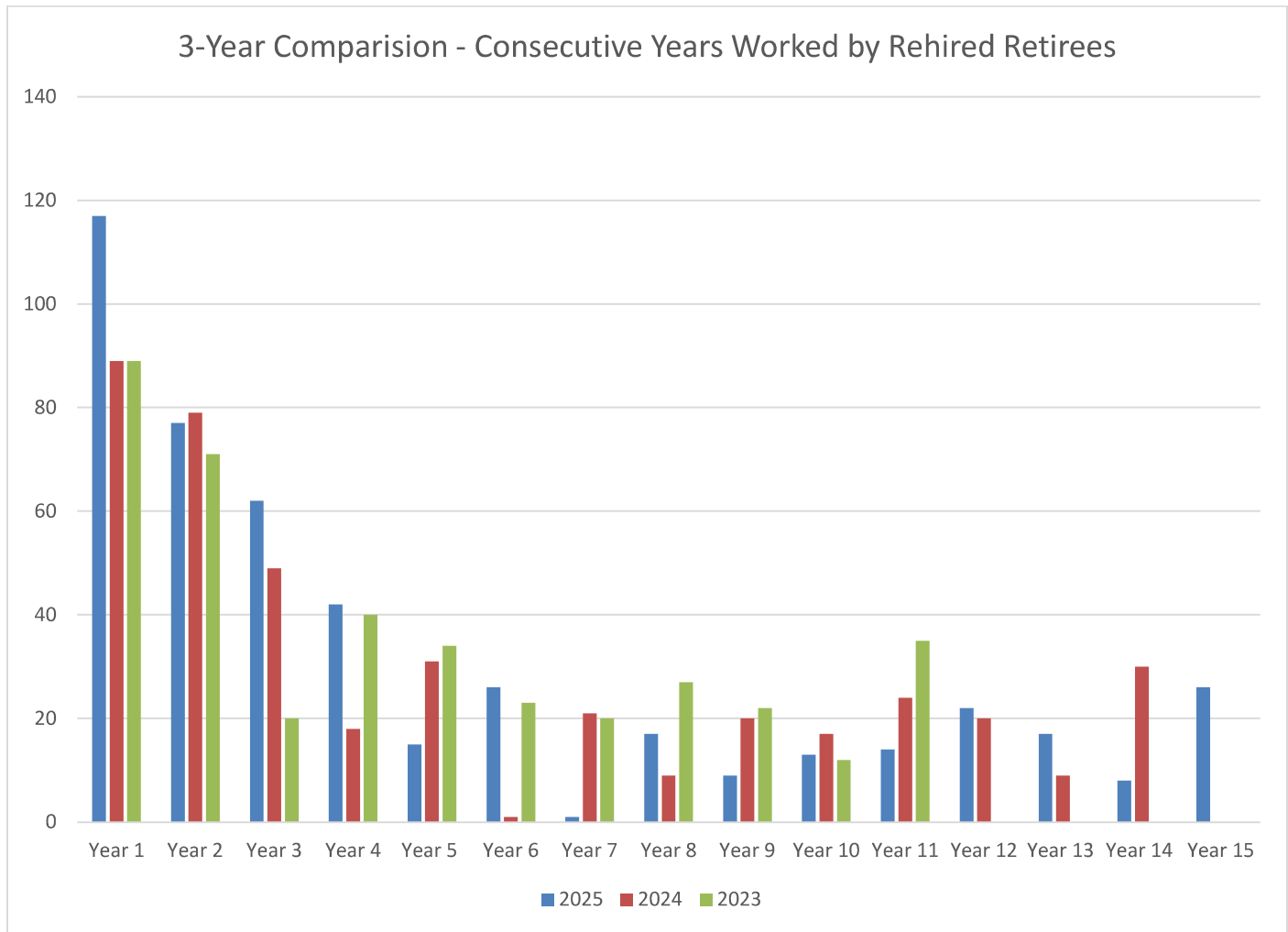
Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance, or misappropriation</p>	<p>Non-compliant with applicable Federal or state laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or state laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>

APPENDIX A DETAILS ON LIMITED DURATION YEARLY COMPARISONS

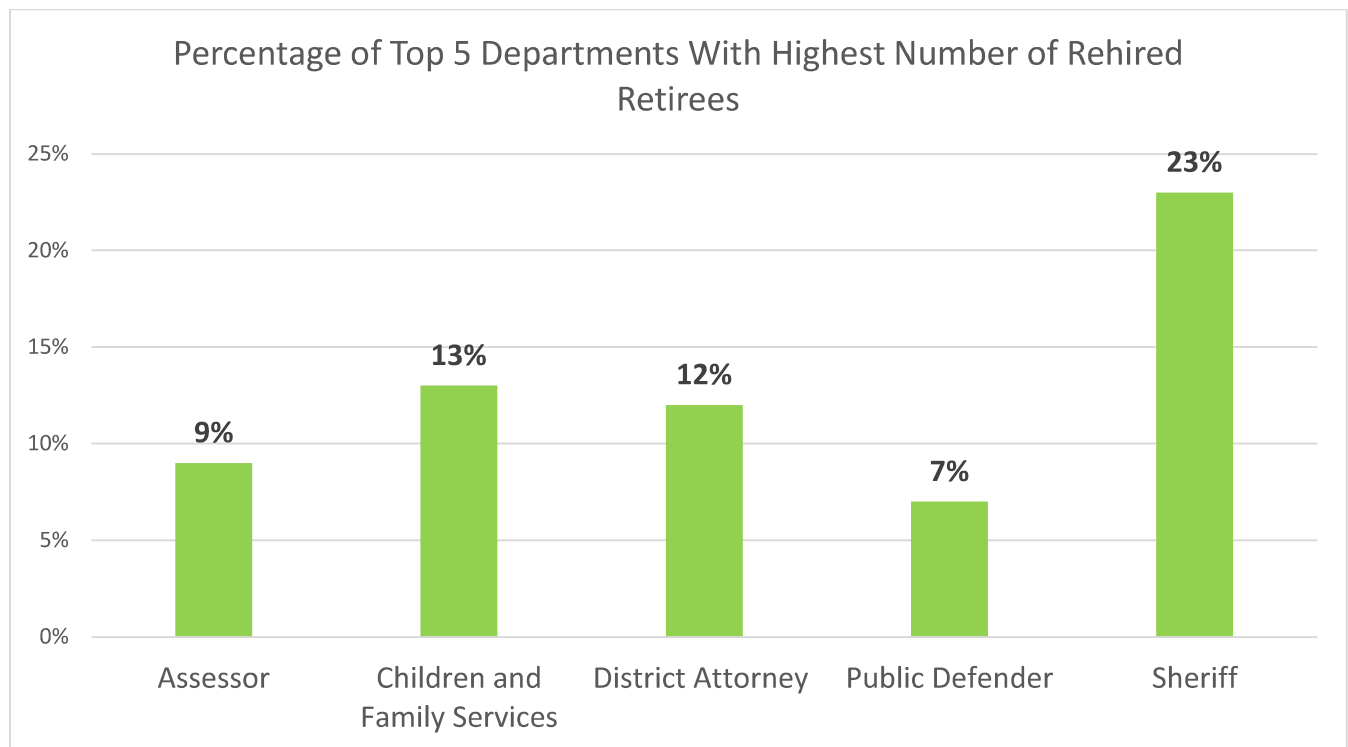
The bar chart below illustrates how many consecutive years of service rehired retirees have worked over the past 15 years. The data demonstrates a significant pattern of extended tenure among rehired retirees: 8 individuals were employed for 14 consecutive years, while 26 maintained 15 consecutive years of service. This trend indicates a significant retention of employees who remain in their roles for over a decade after retirement. It also indicates that a portion of the retiree workforce remains engaged for an extended period, which may be attributed to the demand for specialized skills, the value of institutional knowledge retention, or constraints in replacement capacity.



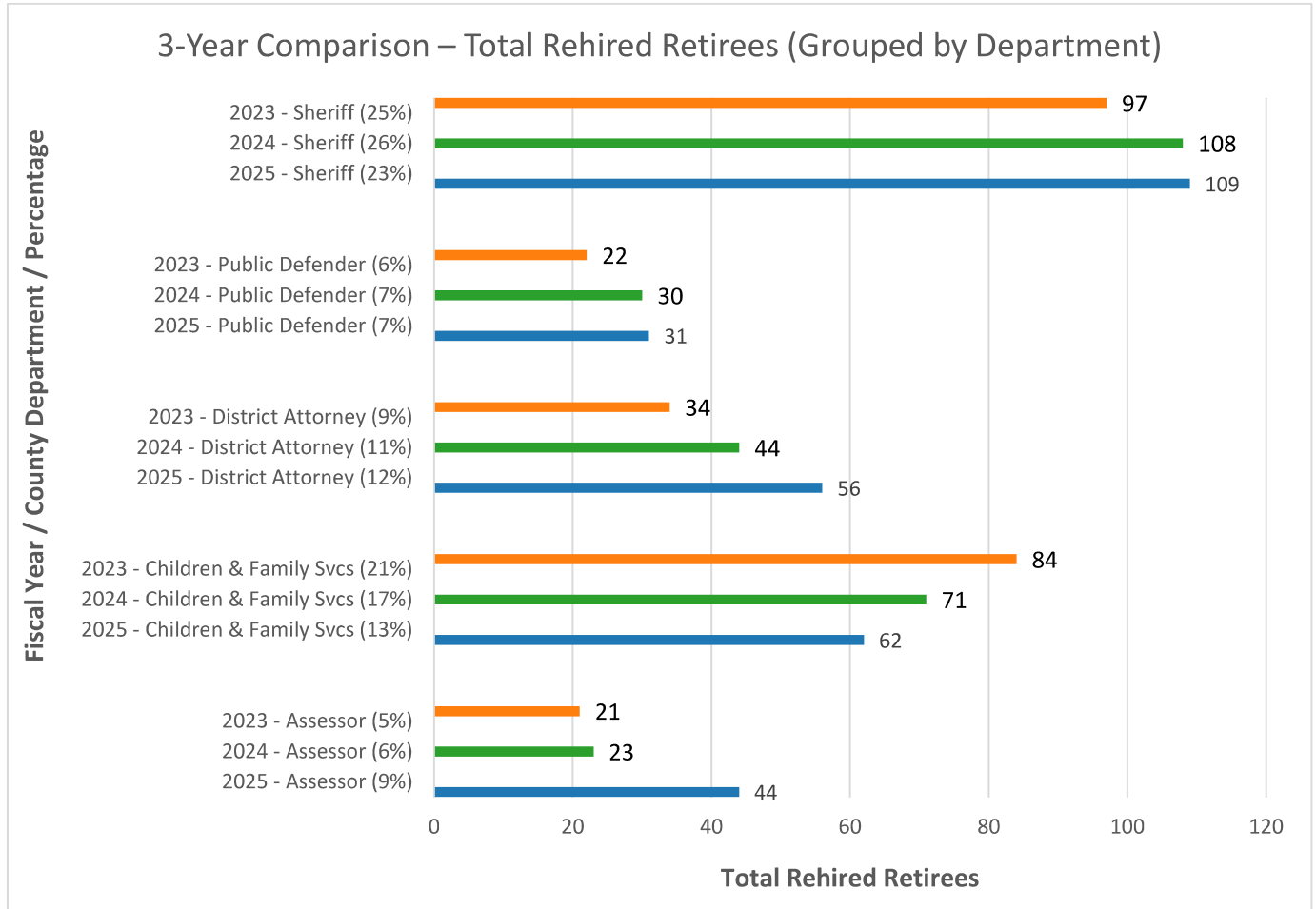
The bar chart below illustrates how rehired retirees cluster into distinct bands of consecutive service years, revealing a consistent pattern across three-year intervals. For example, at the lower end of the range in 2025, 117 retirees returned for 1 year, 77 returned for 2 years, and 62 came back for 3 consecutive years. At the higher end of the range in 2025, the pattern shows: 17 retirees worked 13 consecutive years, 8 worked 14 years, and 26 worked 15 consecutive years. These distributions show a meaningful concentration of retirees who continue working well beyond a decade after rehiring.



The bar chart below highlights the five departments with the highest proportion of retirees returning to work. Sheriffs led by a wide margin, 23% (109 retirees), followed by Children and Family Services 13% (62 retirees), District Attorney 12% (56 retirees), Assessor 9% (44 retirees), and Public Defender 7% (31 retirees). This pattern suggests that certain LA County departments, particularly those in public safety and high-demand service areas, rely more heavily on rehired retirees than others.



The bar chart below presents a three-year trend analysis of rehired retirees by County departments with the highest proportion of retirees, comparing Fiscal Years 2023, 2024, and 2025. Each department is shown as a grouped set of three bars (one per year), allowing an easy visual comparison of how the total number of rehired retirees has changed over time within that department. The Department labels in the chart also indicate the percentage of rehired retirees for each year, offering further context regarding the proportional relationship between each department's number of rehired retirees and the corresponding annual total. Overall, the chart highlights which departments experienced increases or decreases across the three-year period.



Los Angeles County's Compliance with Requirements for Rehired Retirees – Fiscal Year Ended June 30, 2025

Audit Report Date: May 14, 2026

Presented by:
Gabriel Tafoya, Senior Auditor

Summary of Engagement



Responsible Division:	Legal Office and Benefits Division
Type of Engagement:	Assurance
Audit Rating:	Opportunities for Improvement
Prior Audit Rating:	Opportunities for Improvement

Type of Engagements

Assurance: Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit, Compliance, Risk, and Ethics (ACRE) Committee on governance, risk management, and control processes for LACERA.

Advisory: Collaborate with Management to provide formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Value Added: Provide Management with informal advice.

Background, Objective, Scope



Background

We perform this audit annually as failure to adhere to the regulations and requirements not only violates state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law.

Objective

To determine compliance with:

- CERL’s 960-hour work limit requirement
- IRS’ “bona fide” break-in-service requirement
- PEPRA’s 180-day break in service requirement
- PPG-505 Waiver Form Requirements as of October 16, 2024
- PEPRA requirement of “limited duration”



Scope

Internal Audit received payroll detail from the County Auditor-Controller identifying 466 retirees who worked as Rehired Retirees during the 2025 Fiscal Year.

Summary of Findings & Management Responses



Finding #	Title of Finding	Rating	Management Response
1	Continued Violation of PEPRA's "limited duration" language	High	<p>Agree with Finding and Recommendation. Management will continue to communicate with the County CEO's Office, Department of Human Resources, and County Counsel regarding the need to comply with the "limited duration" requirement and whether policy provisions or practices can be added or strengthened to explicitly address the requirement.</p> <p>Management has previously discussed this issue with the Board of Retirement on several occasions. Management will return to the Board as needed. Management supports continued annual audits of limited duration by Internal Audit as an effective means of communicating information about the County's compliance with the limited duration based on actual data as to the tenure of the County's rehired retirees by department. As part of future audits, Management suggests that Internal Audit obtain copies of all annual justifications so that explanations for extensions can be reviewed.</p>
2	PPG-505 Waiver Form Requirements as of October 16, 2024	Medium	<p>The Benefits Division agrees with these recommendations. Benefits will develop a procedure and assign monitoring as recommended. Anticipated date of completion is December 31, 2026.</p>

Thank You



QUESTIONS?





June 9, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

Kristina Sun 
Senior Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Strategic Asset Allocation Audit**

RECOMMENDATION

In accordance with your current ACRE Committee Charter, staff recommends that the ACRE Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings, and/or
4. Provide further instruction to staff.

ENGAGEMENT REPORT

Strategic Asset Allocation Audit
(Report Issued on June 9, 2026)

Attachments:

- A. Strategic Asset Allocation Audit Report
- B. Management Response: Strategic Asset Allocation (SAA) Audit
- C. Strategic Asset Allocation Audit Presentation



LACERA INTERNAL AUDIT DIVISION

Strategic Asset Allocation Audit

AUDIT PERFORMED BY:

**KRISTINA SUN, CPA, CIA
SENIOR INTERNAL AUDITOR**

June 9, 2026

AUDIT REPORT

Audit Name:	Strategic Asset Allocation Audit
Responsible Division:	Investment Office
Audit Rating*:	Satisfactory
Prior Audit Rating*:	N/A
Prior Report Date:	N/A

EXECUTIVE SUMMARY

Internal Audit conducted an audit of the Investment Office's Strategic Asset Allocation (SAA) process for the Fiscal Year (FY) 2024 review cycle and concluded that the overall control environment supporting the SAA process is **satisfactory**. The SAA process has matured and become more formalized over recent review cycles and demonstrates effective oversight. The SAA process is critical since it establishes LACERA's long-term investment framework and influences key decisions affecting risk, liquidity, diversification, and long-term funding objectives. Overall, the audit concluded that the SAA process is well-designed to support fiduciary oversight and long-term strategic decision-making.

PURPOSE

The Fiscal Year (FY) 2026 Audit Plan includes an audit of the Investment Office's Strategic Asset Allocation (SAA) process. The SAA process is the backbone of LACERA's investment governance framework and establishes the long-term allocation strategy for the pension portfolio. The process is intended to support long-term funding objectives, risk management, liquidity needs, and portfolio diversification considerations. Given its importance to fiduciary governance and long-term financial sustainability, and the Board of Investments planned approval of a new SAA in June 2027, Internal Audit included this audit in its plan. This audit supports the ACRE Committee's responsibility to oversee whether significant governance processes are operating as intended.

At the May 2026 BOI meeting, the Investment Office kicked off the FY 2026-2027 SAA cycle.

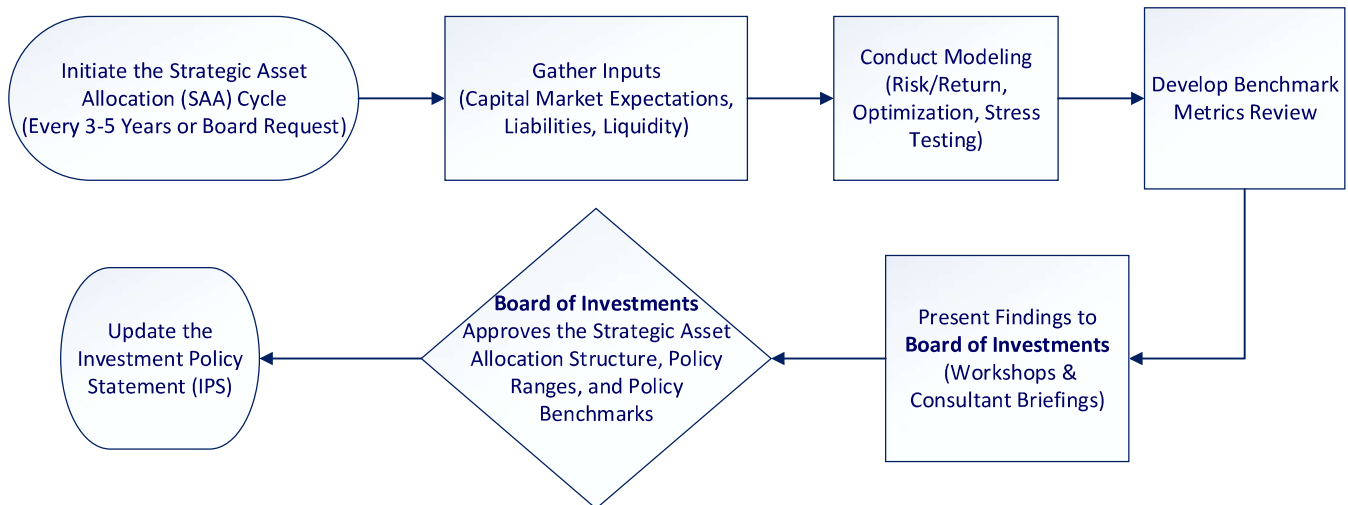
BACKGROUND

The SAA is governed by the Investment Policy Statement (IPS), which mandates that comprehensive asset allocation studies be conducted every three to five years or at the Board of Investment (BOI)'s request. These studies are designed to align the fund's investments with its mission to *produce, protect, and provide the promised benefits to our members*.

SAA establishes LACERA's long-term investment framework by defining target asset allocations, allowable ranges, and performance benchmarks for implementation and monitoring of the investment program. The SAA process generally includes evaluation of capital market expectations, asset-liability study, expected return and risk trade-offs, and implementation considerations. The chart below illustrates the Investment Office's current SAA process.

* See Appendix 1 for Audit Rating

Strategic Asset Allocation (SAA) Process Flow



Stakeholder engagement among the BOI, Investment Office, and Meketa are critical to the SAA process.

- The BOI provides oversight and approval of the SAA process and fulfills its governance role through active engagement in educational sessions, presentations, and governance discussions at Board meetings.
- The Investment Office guides the SAA process by framing strategic issues for Board consideration, evaluating consultant analyses, assessing implementation implications, facilitating trustee education, and translating complex investment concepts into governance-level insights to enable the BOI to make informed decisions.
- Meketa serves as the Board’s investment consultant, providing independent advisory and analytical support and capital market insights to inform the SAA process and support alignment with industry practices.

The collaborative interaction among these parties is intended to support informed fiduciary oversight and long-term portfolio stewardship.

In 2019, LACERA transitioned from a classical asset class framework to a functional asset category structure. Under this approach, investments are grouped according to the role they serve within the investment portfolio rather than solely by traditional asset class classifications.

Compared to prior SAA reviews, the FY2024 cycle was conducted over a 12-month period and included expanded educational sessions, trustee interviews and survey feedback, climate-related scenario discussions, and ongoing engagement with the Board. In addition to formal SAA agenda items, strategic asset allocation considerations were reinforced through regular Chief Investment Officer (CIO) reporting, portfolio monitoring discussions, and rebalancing updates throughout the review cycle. This structure provided trustees with additional opportunities to evaluate capital market assumptions, consider trade-offs among risk, return, liquidity, and diversification objectives, and deliberate on strategic alternatives before approving the final allocation.

Please refer to *Figure 1* below for a summary of the SAA-related meeting topics covered in the FY 2024 BOI meetings.

Figure 1



AUDIT OBJECTIVE & SCOPE

External leading practices recommend periodic governance review of investment programs, including strategic asset allocation, to promote effective oversight and sound pension fund management. The following publications highlight the role of governance, investment policy, and asset allocation in support of long-term portfolio performance:

Organization	Publication (Year)	Relevance to Strategic Asset Allocation
NCPERS (National Conference on Public Employee Retirement Systems)	<i>Best Governance Practices for Public Retirement Systems</i> (2024) ¹	Includes assessment of investment policy and asset allocation as components of its recommended model risk management framework
CFA Institute Investment Series	<i>Portfolio Management in Practice, Volume 2: Asset Allocation</i> (2021) ²	Emphasizes governance as a key dimension of institutional portfolio management and highlights the need for robust oversight mechanisms

¹ NCPERS. (2024). Best Governance Practices for Public Retirement Systems. https://www.ncpers.org/files/resources/NCPERS_BEST%20GOVERNANCE%20PRACTICES_Final_2024.pdf

² CFA Institute. (2020). Managing Investment Portfolios: A Dynamic Process (3rd ed.).

Organization	Publication (Year)	Relevance to Strategic Asset Allocation
CFA Institute Research Foundation	<i>Investment Governance for Fiduciaries</i> (2019) ³	Provides in-depth research on investment governance framework, including the topic of Strategic Asset Allocation
GFOA (Government Finance Officers Association)	<i>Asset Allocation for Defined Benefit Plans</i> (2019) ⁴	Recommends regular review of investment policies, including asset allocation strategies and the roles of third-party investment professionals

Based on the publications listed above from NCPERS, CFA Institute, and GFOA, as well as discussions with the Investment Office, the objective of this audit was to assess governance, roles and responsibilities, and the development of LACERA’s Strategic Asset Allocation (SAA) process. Internal Audit performed this assessment through review of BOI meetings and materials and interviews with key stakeholders, including Meketa, which provided a comparative perspective on SAA practices observed among peer public pension funds.

The scope of the engagement included reviewing the FY2024 SAA cycle (July 2023 through June 2024). The audit focused on whether governance processes supported informed decision-making, not a validation of investment outcomes, consultant assumptions, or the merits of any specific allocation recommendation. Previous SAA cycles were reviewed on an as needed basis.

The audit was performed in accordance with the Institute of Internal Auditors’ Global Internal Audit Standards. There were no scope limitations during this audit.

AUDIT RESULTS

Internal Audit observed that the Investment Office’s SAA process reflects increased structure and formalization over recent review cycles. The FY2024 SAA review incorporated several governance enhancements intended to support engaged and informed Board decision-making, including an extended timeline to cover key discussions, such as climate-related scenario discussions, trustee interviews and survey feedback, and continued refinements to the functional asset category framework.

Routine trustee transitions occurred during the review period. Internal Audit observed that the extended timeline and recurring educational discussions provided opportunities for both continuing and incoming trustees to participate in the review and understand the basis for the final allocation decisions.

During the audit, Internal Audit discussed opportunities to further strengthen documentation of SAA-related Board discussions and key decision considerations. Investment Office Management subsequently incorporated additional discussion summaries into BOI materials. Internal Audit believes this enhancement will support institutional knowledge retention and

³ CFA Institute Research Foundation. (2019). *Investment Governance for Fiduciaries*.
<https://www.cfainstitute.org/sites/default/files/-/media/documents/book/2019/investment-governance-for-fiduciaries.pdf>

⁴ Government Finance Officers Association. (2019). *Asset Allocation for Defined Benefit Plans*.
<https://www.gfoa.org/materials/asset-allocation-for-defined-benefit-plans>

continuity across future SAA review cycles.

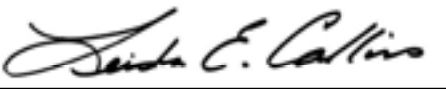
Based on the procedures performed, Internal Audit concluded that the overall control environment supporting the Investment Office’s SAA process is well-designed and supports effective oversight. The process included governance practices intended to support informed Board decision-making, and Internal Audit did not identify any exceptions within the areas reviewed. Accordingly, the overall audit rating was determined to be “**Satisfactory**”. Below is the engagement results dashboard for the SAA audit.

Engagement Results Dashboard – Strategic Asset Allocation Audit

Audit Objectives	Key Control Activities Tested	Test Results
Board Governance and Oversight	Review of Board’s engagement and approval of the SAA, asset allocation studies, BOI governance, and use of external consultants.	No Exceptions
Board Materials	Evaluate the information and materials that the Investment Office provided to the BOI in the Board’s decision making and oversight of the development of the SAA.	No Exceptions
Development of the SAA	Assess whether the development of the SAA is consistent with the fiduciary duty as articulated in the IPS, including functional allocation categories definition. Compare historical SAA reviews and the evolution of the SAA process.	No Exceptions
Risk Management	Evaluate the risk management practices used to develop the SAA, including the risk management parameters, benchmarks, target allocations, and liquidity management.	No Exceptions
Board and Staff’s Roles and Responsibilities	Review the roles of internal staff, external consultants, and oversight bodies in developing and recommending the SAA.	No Exceptions

We would like to thank the Investment Office for their cooperation with this audit.

REVIEWED AND APPROVED



Leisha E. Collins
 Chief Audit Executive

Date: June 9, 2026

REPORT DISTRIBUTION

2026 ACRE Committee	Luis Lugo, CEO	J.J. Popowich, AEO
Larry Jensen, ACRE Committee Consultant	Jon Gabel, Chief Investment Officer	Jessica Baxter, AEO
Internal Audit Group	2026 CLA Audit Team	Jude Perez, Deputy CIO

APPENDIX 1 AUDIT RATINGS SCALE

Internal Audit issues three standard audit report evaluations as defined below:

Satisfactory

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

Opportunities for Improvement

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

Unsatisfactory

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks, and the impact may be substantial in size, nature, or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.

APPENDIX 2 FINDING'S RISK RATING SCALE

Findings identified during the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or Members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance or misappropriation</p>	<p>Non-Compliance with applicable Federal or State laws or LACERA's policies</p>	<p>High probability for external audit issues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external audit issues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or State laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability for external audit issues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>

Management Response: Strategic Asset Allocation (SAA) Audit

Project # 2025-16

June 5, 2026

Management thanks Internal Audit for their collaboration throughout the review of the Investment Office's Strategic Asset Allocation (SAA) process. We note the overall Satisfactory rating and the finding of no exceptions across the areas of governance, process development, risk management, and roles and responsibilities. Management agrees with the recommendation to enhance documentation of Board-level discussions related to the SAA process. This improvement has already been incorporated into the current SAA review cycle, which commenced with the Board of Investments' SAA Process Review presentation in May 2026, and will be maintained as a standard practice going forward.

Strategic Asset Allocation is the single most important element in ensuring the Fund achieves its mission and objectives. It is the primary driver of long-term risk and return and the method by which LACERA fulfills its obligation to produce, protect, and provide the promised benefits to our members. The Investment Office remains committed to maintaining and continuously improving the SAA process to uphold the standards of fiduciary governance expected by our stakeholders.

Jonathan Grabel

Chief Investment Officer

Jude Pérez

Deputy Chief Investment Officer

Strategic Asset Allocation (SAA) Audit

Audit Report Date: June 9, 2026

Presented by:
Kristina Sun, Senior Internal Auditor

Summary of Engagement



Responsible Divisions:	Investment Office
Type of Engagement:	Assurance
Audit Rating:	Satisfactory

- The Strategic Asset Allocation (SAA) process is critical since it establishes LACERA's long-term investment framework and influences key decisions affecting risk, liquidity, diversification, and long-term funding objectives.
- The SAA process has matured and become more formalized over recent review cycles and demonstrates effective oversight.
- Overall, the audit concluded that the SAA process is well-designed to support fiduciary oversight and long-term strategic decision-making.

Assurance Engagement Type Definition:
Assurance engagements provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the ACRE Committee on governance, risk management, and control processes for LACERA.

Purpose



- The Strategic Asset Allocation (SAA) process is the backbone of LACERA's investment governance framework and establishes the long-term allocation strategy for the pension portfolio.
- Given the SAA's importance to fiduciary governance and long-term financial sustainability, Internal Audit included this audit in its Fiscal Year 2026 Audit Plan in advance of the Board of Investments' planned approval of a new SAA in June 2027.
- This audit supports the ACRE Committee's responsibility to oversee whether significant governance processes are operating as intended.



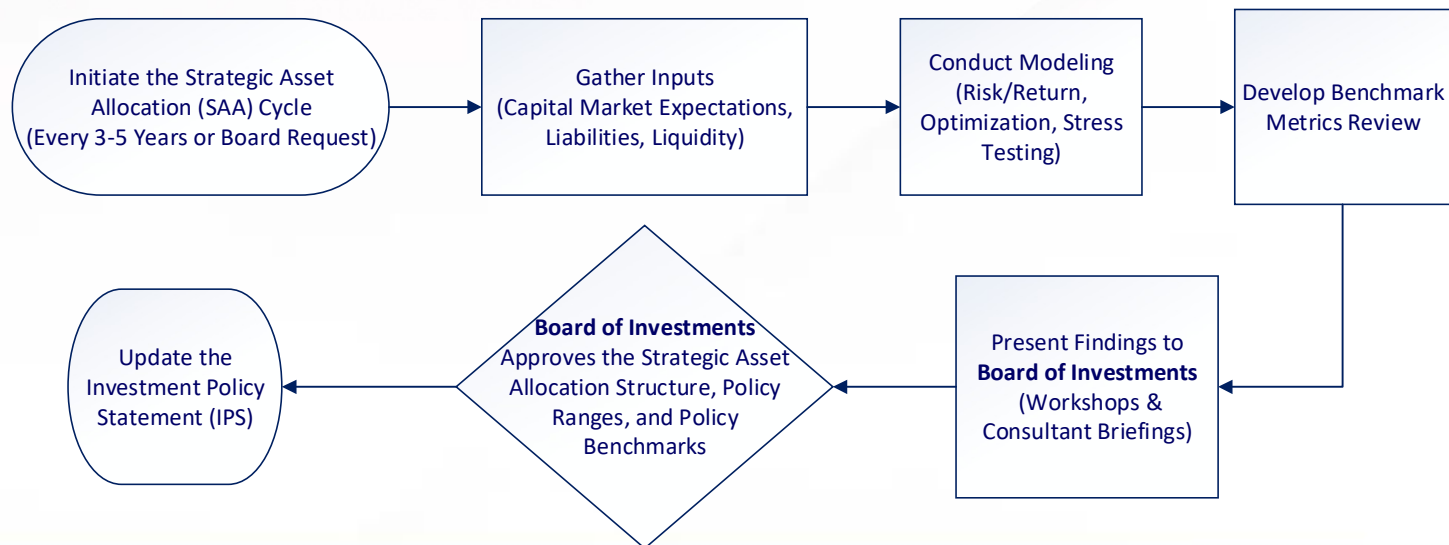
Background



The SAA is governed by the Investment Policy Statement (IPS), which mandates that comprehensive asset allocation studies be conducted every three to five years or at the Board of Investment (BOI)'s request.

These studies are designed to align the fund's investments with its mission to *produce, protect, and provide the promised benefits to our members.*

Strategic Asset Allocation (SAA) Process Flow



Audit Objective & Scope



The **objective** of this audit was to independently assess governance, roles and responsibilities, and the development of LACERA's Strategic Asset Allocation (SAA) process to support informed decision-making.

The **scope** of the engagement included reviewing the Fiscal Year 2024 SAA cycle (July 2023 through June 2024). Previous SAA cycles were reviewed on an as needed basis.

The audit did not include validation of investment outcomes, consultant assumptions, or the merits of any specific allocation recommendation.



Audit Results



Satisfactory: The FY 2024 SAA review incorporated several governance enhancements intended to support engaged and informed Board decision-making, including an extended timeline to cover key discussions, such as climate-related scenario discussions, trustee interviews and survey feedback, and continued refinements to the functional asset category framework.

Audit Objectives	Key Control Activities Tested	Test Results
Board Governance and Oversight	Review of Board’s engagement and approval of the SAA, asset allocation studies, BOI governance, and use of external consultants.	No Exceptions
Board Materials	Evaluate the information and materials that the Investment Office provided to the BOI in the Board’s decision making and oversight of the development of the SAA.	No Exceptions
Development of the SAA	Assess whether the development of the SAA is consistent with the fiduciary duty as articulated in the IPS, including functional allocation categories definition. Compare historical SAA reviews and the evolution of the SAA process.	No Exceptions
Risk Management	Evaluate the risk management practices used to develop the SAA, including the risk management parameters, benchmarks, target allocations, and liquidity management.	No Exceptions
Board and Staff’s Roles and Responsibilities	Review the roles of internal staff, external consultants, and oversight bodies in developing and recommending the SAA.	No Exceptions



THANK YOU AND ANY QUESTIONS?



INTEGRITY



OBJECTIVITY



ASSURANCE



VALUE





May 31, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

Christian Velasco 
Senior Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Business Continuity Program Advisory Engagement**

RECOMMENDATION

In Accordance with your current ACRE Committee Charter, staff recommends that the ACRE Committee review and discuss the following engagement and take the actions below:

1. Accept and file,
2. Instruct staff to forward memo to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the engagement, and/or
4. Provide further instruction to staff.

PURPOSE

The Audit Plan for Fiscal Year Ending (FYE) 2026 included an advisory engagement of the Business Continuity Program (BCP) due to its role in ensuring LACERA's ability to provide mission-critical services to members during disruptions. In 2019, Internal Audit provided support to the formalization of the BCP with Administrative Services, and this engagement builds on that work to assess current program maturity.

Continuity of mission-critical processes is a core expectation across all organizations. Business continuity refers to an organization's ability to continue to deliver key services after a disruptive event such as a natural disaster, cyber incident, or other operational disruption.

A well-designed BCP is a critical component of organizational resilience, enabling organizations to keep employees safe while sustaining essential functions during a disruption.

BACKGROUND

The Business Continuity Unit (BCU), within Administrative Services, is responsible for LACERA's BCP. The unit develops and maintains comprehensive plans that allow LACERA to respond to and recover from disruptive events.

The BCU collaborates with divisions through tabletop exercises, and periodic business impact analyses, and performs risk assessments to identify potential threats and corresponding controls. In addition, the BCU coordinates crisis-specific emergency responses, and supports the availability of essential resources.

The BCU's goal is to support employee safety and LACERA's ability to continue providing mission-critical services to members during disruptive events.

ENGAGEMENT OBJECTIVE AND SCOPE

The objective of this engagement was to provide management with an assessment of LACERA's BCP, and to identify enhancements to further mature the program capabilities.

To assess the program, Internal Audit conducted research on leading BCP frameworks and standards, including those issued by the International Organization for Standardization, Institute of Internal Auditors, Business Continuity Institute, and Disaster Recovery Institute International.

Based on these frameworks, effective BCPs generally include the following key components:

- Governance, Oversight, and Program Management
- Business Continuity Risk Assessment and Business Continuity Risk Mitigation
- Business Impact Analysis
- Business Recovery and Continuity Strategies
- Deployment, Verification, and Maintenance of Business Continuity Management Program Capabilities

Disaster Recovery is a key component of BCP. However, it was excluded from the scope of this engagement, as the program is managed by the Information Security Office rather than Administrative Services. As approved by the ACRE Committee in November 2025, Internal Audit will engage Weaver and Tidwell, LLP, an approved audit pool vendor, to conduct a separate advisory engagement on Disaster Recovery as part of the FYE 2027 Audit Plan.

The scope of this engagement assessed the BCP process between February 1, 2024 through January 31, 2025. Due to the timing of the engagement, Internal Audit also reviewed updates to the program through May 31, 2026; however, these activities were not subject to the same level of assessment procedures.

This advisory engagement was performed in conformance with the Institute of Internal Auditors Global Internal Audit Standards and did not provide assurance related to the effectiveness of BCP.

ENGAGEMENT RESULTS

Internal Audit observed that LACERA's Business Continuity Program has continued to mature, building on the prior advisory support provided by Internal Audit in 2019 that helped formalize and document key elements of the program.

During the period from February 1, 2024 to January 31, 2025, Internal Audit observed the following strengths:

- The BCU is knowledgeable and well-regarded across LACERA. The addition of a dedicated full-time resource and ongoing professional development have strengthened governance and oversight of the BCP.
- The ongoing engagement of MHA Consultants, a consulting firm specializing in Business Continuity and Disaster Recovery, has strengthened BCP capabilities across governance, risk assessment, business impact analysis, recovery planning, and ongoing testing and program maintenance through tabletop exercises. BCU retained MHA Consultants beginning in March 2023.
- The BCU provides regular communication and training to staff, strengthening organizational preparedness and supporting effective deployment, verification, and ongoing maintenance of the program, including updates to contact information, employee safety training, and awareness of facility security measures.

Subsequent to January 31, 2025, Internal Audit noted continued maturation of the BCP, particularly in the refinement of LACERA's business impact analyses, including the following actions:

- Enhanced divisional engagement in identifying and monitoring critical processes during the annual Business Impact Analysis Update, strengthening consideration of regulatory requirements, technology dependencies, and internal and external interdependencies.
- Collaboration with Systems and Information Security to assess recovery time and recovery point objectives.

While LACERA's BCP includes key foundational elements and continues to mature, Internal Audit identified the following actions to further enhance governance and oversight of the program:

- Update the BCP Charter to more clearly define roles, responsibilities, and expectations of key stakeholders, including clarification between the LACERA Emergency Response Team and LACERA Incident Response Team.
- Establish and document formal oversight activities, including those supporting the Risk Assessment and Business Impact Analysis, to promote effective challenge and provide clear direction for business recovery processes and program deployment.
- Provide training to supplement the ongoing tabletop exercises, ensuring emergency response procedures and resources are consistently communicated and understood across LACERA.

- Establish a process to track, document, and monitor outstanding findings and recommendations within the BCP to support timely remediation and informed management oversight.

MANAGEMENT COMMENTS

Management appreciates Internal Audit's review and acknowledges the continued maturation of the BCP. The observations reflect meaningful progress in governance, business impact analysis, and cross-divisional coordination. Management concurs with the identified opportunities and will further strengthen the program through clearer roles and responsibilities, enhanced oversight, expanded training, and improved tracking of recommendations. Management remains committed to advancing a resilient and sustainable program.

CONCLUSION

Internal Audit would like to extend its appreciation to Administrative Services for collaborating on this advisory engagement.

Overall, LACERA's BCP includes key foundational elements necessary to restore critical business processes and continues to demonstrate maturation. The proposed enhancements are intended to reinforce governance and oversight, strengthen deployment, verification and maintenance of the program's capabilities.

Attachment:

A: Business Continuity Program Advisory Engagement (Presentation)



ATTACHMENT A

Business Continuity Program Advisory Engagement

Audit Presentation Date: June 24, 2026

Presented by:
Christian Velasco, Senior Internal Auditor

Organizational Resilience



Incident Response
Tactical

- Detect
- Assess
- Contain

Stop the issue / event from spreading and limit exposure.

Crisis Management
Strategic

- Decide
- Lead
- Communicate

Set direction and manage enterprise-level impact.

Business Continuity
Operational

- Restore
- Resume
- Recover

Maintain critical operations until normal operations can be restored.

Summary of Engagement



Responsible Division:	Administrative Services
Type of Engagement:	Advisory

Type of Engagements

Assurance: Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and ACRE on governance, risk management, and control processes for LACERA.

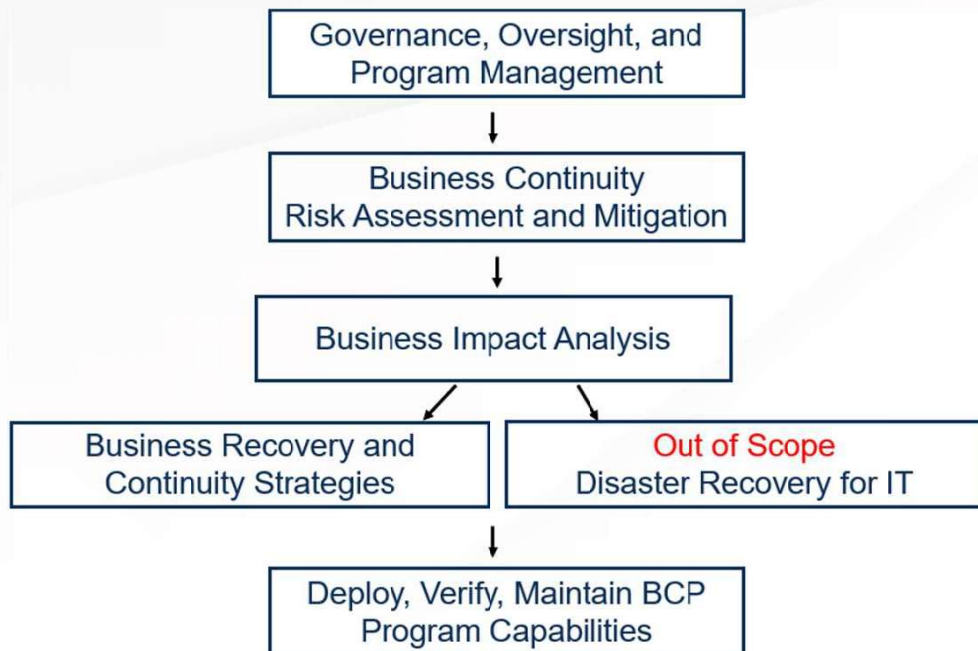
Advisory: Collaborate with Management to provide a formal assessment and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Other Value-Added Services: Provide Management with informal advice.

Objective and Scope



Key Components of an Effective BCP (based on leading industry frameworks)



Objective

Assess LACERA's BCP by evaluating alignment with leading industry frameworks.

Leading Industry Frameworks reviewed included:

- International Standards Organization
- Business Continuity Institute
- Disaster Recovery Institute International
- Institute of Internal Auditors

Scope

The scope of this engagement encompasses BCP processes between February 1, 2024, to January 31, 2025.

Due to the timing of the engagement, Internal Audit also reviewed updates to the program through May 31, 2026; however, these activities were not subject to the same level of assessment procedures.

The scope excludes Disaster Recovery of IT.

Engagement Results



BCP has key foundational pieces and is continuing to mature.

During the scope period, Internal Audit assessed:

- Business Continuity Unit (BCU) is knowledgeable and well-regarded across LACERA.
- Leverages MHA to inform BCP guidance, risk assessment, and support.
- BCU provides regular communication and training to all staff.

Subsequent to the scope period, Internal Audit noted:

- Enhanced divisional engagement to identifying and monitoring critical processes during the annual Business Impact Analysis Update.
- Collaboration with Systems and Information Security to assess recovery time and recovery point objectives.

Key Thematic Enhancements



Administrative Service and Internal Audit agree the following enhancements would continue to strengthen the Program:

Governance, Oversight, and Program Management

- Update the Business Continuity Charter
 - Define roles and responsibilities, particularly between LACERA Emergency Response Team and LACERA Incident Response Team.
 - Establish and document oversight activities including those supporting the Risk Assessment and Business Impact Analysis.
- Provide BCP Training for LACERA Staff to supplement tabletop exercises.
- Approve the Risk Assessment and annual Business Impact Analysis Reports to support a comprehensive and coordinated program.
- Establish a process to track, document, and monitor outstanding findings and recommendations throughout the Business Continuity Process.

Thank you



We would like to thank Administrative Services and staff for their cooperation during this engagement and invite them to provide any comments.





June 9, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

Kristina Sun 
Senior Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Fiscal Year 2025-2026 Internal Controls over Financial Reporting (ICFR)
Readiness Assessment**

RECOMMENDATION

In Accordance with your current ACRE Committee Charter, staff recommends that the ACRE Committee review and discuss the following engagement and take the actions below:

1. Accept and file,
2. Instruct staff to forward memo to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on the engagement, and/or
4. Provide further instruction to staff.

PURPOSE

The Audit Plan for Fiscal Year Ending (FYE) 2026 included an advisory engagement of the Internal Controls over Financial Reporting (ICFR) Readiness Assessment. LACERA engaged CLA (CliftonLarsonAllen LLP) to perform the assessment in advance of the annual financial statement audit. The engagement originated from discussions between the Financial & Accounting Services Division (FASD) and Internal Audit and was designed to support a smooth transition to LACERA's new external auditor through the early identification and resolution of significant financial reporting and audit readiness matters.

Consistent with the ACRE Committee's responsibilities to oversee financial reporting process as stated in the ACRE Charter, Section VII.A.3., *Financial Reporting Process*, this memo provides

an overview of the readiness assessment results. The readiness assessment provided management an opportunity to proactively address these matters before year-end, reducing audit risk and strengthening the reliability and transparency of LACERA's financial reporting.

BACKGROUND

In August 2025, LACERA engaged CLA as its independent external financial statement auditor. As LACERA prepared for the transition to a new external auditor, FASD and Internal Audit recognized an opportunity to proactively assess key financial reporting processes before commencement of CLA's first financial statement audit for Fiscal Year (FY) 2025-2026. As a result, CLA was engaged to conduct the financial statement audit readiness assessment from January 2026 through May 2026.

Throughout the readiness assessment process, CLA established an understanding of LACERA's financial reporting environment and key processes supporting financial reporting. The assessment included selected reviews of financial reporting, operational, and information technology processes to identify matters requiring management attention prior to year-end audit procedures.

The assessment included discussions with personnel from FASD, Investment Office, Benefits, Retiree Healthcare, Systems, and other relevant divisions, as well as reviews of selected policies, procedures, and supporting documentation.

ENGAGEMENT OBJECTIVE AND SCOPE

The objective of the readiness assessment was to evaluate the preparedness of key financial reporting processes and supporting documentation for the FY 2025-2026 financial statement audit. The readiness assessment performed by CLA was intended to identify areas requiring management attention before the annual financial statement audit and was not designed to provide an opinion on the effectiveness of internal controls or financial reporting. This allows management to address any areas of concern to ensure better financial statement audit results.

The assessment focused on significant financial reporting and operational areas. Areas included within the scope of the assessment were:

- Actuary & Census Data
- Benefits Paid
- Cash
- Contributions
- Financial Reporting
- Investments
- Pension Plan Reserves
- IT General Controls (ITGC)

ENGAGEMENT RESULTS

The readiness assessment reflected a collaborative effort among management, Internal Audit, and CLA to proactively evaluate LACERA's financial reporting environment and preparedness for the FY 2025-2026 financial statement audit. CLA identified three audit readiness matters for management consideration. CLA highlighted these matters based on their potential to affect the FY 2025-2026 financial audit if not addressed prior to year-end. The identifications were communicated early enough for management to evaluate and implement actions. Timely resolution of these matters provides an opportunity to reduce audit risk and support a more efficient audit process.

The matters summarized below do not constitute audit findings, control deficiencies, or conclusions regarding the effectiveness of internal controls. Rather, they represent audit readiness matters that warranted management attention due to their potential impact on financial reporting, audit readiness, and/or audit execution if remained unresolved through FY 2026.

The table below displays the three audit readiness matters identified through the assessment.

Audit Readiness Matter	Potential Impact to Financial Reporting and Audit Readiness	Management Actions
<p>Employer Contribution Process</p>	<p>The Employer Contributions process should be formalized, including clearly defined cross-agency and cross-divisional roles and responsibilities, as well as procedures for receiving, reconciling, and resolving discrepancies related to employer contributions.</p> <p><i>Rationale:</i> The employer contribution is a core source of funding for LACERA’s ability to pay pension benefits.</p>	<p>Status: In Progress</p> <p>The formalization of employer contribution reconciliation process is currently under management review.</p>
<p>Third-Party Service Provider Oversight</p>	<p>Opportunities were identified to strengthen oversight of State Street’s System and Organizational Controls (SOC) reports which involve collaboration from multiple divisions.</p> <p><i>Rationale:</i> Effective use of outsourced processes depends on appropriate oversight of third-party service providers.</p>	<p>Status: Completed</p> <p>Management has reviewed the FY 2025-2026 SOC 1 and SOC 2 reports from State Street for completeness and accuracy.</p>
<p>Financial Statement Presentation and Reporting</p>	<p>Suggestions were made to enhance the presentation and classification of certain financial statements line items and related supplementary information:</p> <ul style="list-style-type: none"> • OPEB Custodial Fund activity • Pension Trust expense account <p><i>Rationale:</i> Clarity in the financial statement presentation increases transparency of LACERA’s financial positions.</p>	<p>Status: In Progress</p> <p>Management is reviewing the suggestions identified during the readiness assessment and will determine whether process enhancements or reporting modifications are appropriate as part of year-end financial statement preparation.</p>

CONCLUSION

The ICFR readiness assessment provided valuable insight into LACERA's preparedness for the FY 2025-2026 financial statement audit. The assessment identified several audit readiness matters requiring management attention and provided sufficient time for management to evaluate and address those matters prior to year-end. Addressing these matters prior to the year-end financial statement audit is expected to support an efficient audit process and reinforce the integrity of LACERA's financial reporting framework.

Management has taken a proactive approach to addressing the audit readiness matters and supporting a smooth and efficient FY 2026 audit process. Management's response to the readiness assessment reflects LACERA's commitment to enhancing financial reporting oversight and continuous improvement.

Attachment:

A: Fiscal Year 2025-2026 Internal Controls over Financial Reporting (ICFR) Readiness Assessment Presentation

Fiscal Year 2025-2026 Internal Control over Financial Reporting (ICFR) Readiness Assessment

Memo Date: June 9, 2026

Presented by:

Kristina Sun, Senior Internal Auditor

Summary of Engagement



Responsible Divisions:	Financial & Accounting Services Division (FASD)
Type of Engagement:	Advisory

- **Early identification of audit readiness matters** provided management with sufficient time to evaluate and address those matters before year-end rather than during the annual audit, reducing the risk of audit delays and unexpected reporting issues.
- **The ICFR readiness assessment provided valuable insight** into LACERA's preparedness for the FY 2025-2026 financial statement audit. The assessment identified several audit readiness matters requiring management attention and provided sufficient time for management to evaluate and address those matters prior to year-end.
- **Management's response to the readiness assessment reflects LACERA's commitment to enhancing financial reporting oversight and continuous improvement.**

Advisory Engagement Type Definition:

Advisory services provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

Purpose



- Financial & Accounting Services Division (FASD) and Internal Audit recognized that the readiness assessment is an opportunity to strengthen audit preparedness and facilitate a smooth transition to LACERA's new external financial auditor, CLA (CliftonLarsonAllen LLP).
- The readiness assessment supports the Committee's oversight of financial reporting responsibilities, which is listed under ACRE Charter, Section VII.A.3., *Financial Reporting Process*.
- The readiness assessment provided management an opportunity to proactively address these matters before year-end, reducing audit risk and strengthening the reliability and transparency of LACERA's financial reporting.

Background



As LACERA prepared for the transition to a new external auditor, FASD and Internal Audit recognized an opportunity to proactively assess key financial reporting processes before commencement of CLA's first financial statement audit for FY 2025-2026. As a result, CLA was engaged to conduct the financial statement audit readiness assessment from January 2026 through May 2026.

The assessment included discussions with personnel from FASD, Investment Office, Benefits, Retiree Healthcare, Systems, and other relevant divisions, as well as reviews of selected policies, procedures, and supporting documentation.

Engagement Objective & Scope



The **objective** of the readiness assessment was to evaluate the preparedness of key financial reporting processes and supporting documentation for the FY 2025-2026 financial statement audit.

The **scope** of the assessment focused on significant financial reporting and operational areas. Areas included within the scope of the assessment are:

1. Actuary & Census Data
2. Benefits Paid
3. Cash
4. Contributions
5. Financial Reporting
6. Investments
7. Pension Plan Reserves
8. IT General Controls (ITGC)

The engagement was not designed to provide an opinion on the effectiveness of internal controls or financial reporting.

Engagement Results



- Management, Internal Audit, and CLA collaborated to assess LACERA's financial reporting environment and audit readiness for FY 2025-2026.
- The identifications of audit readiness matters were communicated early enough for management to evaluate and implement actions, thereby reducing audit risk and supporting a more efficient audit process.
- *The matters summarized in the engagement results do not constitute audit findings, control deficiencies, or conclusions regarding the effectiveness of internal controls. Rather, they represent audit readiness matters that warranted management attention due to their potential impact on financial reporting, audit readiness, or audit execution if they remain unresolved through FY 2026.*

Engagement Results



Audit Readiness Matter	Potential Impact to Financial Reporting and Audit Readiness	Management Actions
Employer Contribution Process	<p>The Employer Contributions process should be formalized, including clearly defined cross-agency and cross-divisional roles and responsibilities, as well as procedures for receiving, reconciling, and resolving discrepancies related to employer contributions.</p> <p><i>Rationale:</i> The employer contribution is a core source of funding for LACERA's ability to pay pension benefits.</p>	<p>Status: In Progress</p> <p>The formalization of employer contribution reconciliation process is currently under management review.</p>
Third-Party Service Provider Oversight	<p>Opportunities were identified to strengthen oversight of State Street's System and Organizational Controls (SOC) reports which involve collaboration from multiple divisions.</p> <p><i>Rationale:</i> Effective use of outsourced processes depends on appropriate oversight of third-party service providers.</p>	<p>Status: Completed</p> <p>Management has reviewed the FY 2025-2026 SOC 1 and SOC 2 reports from State Street for completeness and accuracy.</p>
Financial Statement Presentation and Reporting	<p>Suggestions were made to enhance the presentation and classification of certain financial statements line items and related supplementary information:</p> <ul style="list-style-type: none"> • OPEB Custodial Fund activity • Pension Trust expense account <p><i>Rationale:</i> Clarity in the financial statement presentation increases transparency of LACERA's financial positions.</p>	<p>Status: In Progress</p> <p>Management is reviewing the suggestions identified during the readiness assessment and will determine whether process enhancements or reporting modifications are appropriate as part of year-end financial statement preparation.</p>



THANK YOU

— AND —

ANY QUESTIONS?



INTEGRITY



OBJECTIVITY



ASSURANCE



VALUE





June 15, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth B. Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Leisha E. Collins 
Chief Audit Executive

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Building the Fiscal Year (FY) 2027 Audit Plan: Our Risk Assessment and Audit Planning Process**

In accordance with the ACRE Charter, Section VII.A.1.f, the Committee is responsible for approving Internal Audit's risk-based Audit Plan, to help ensure that LACERA's governance, risk management, and control processes are appropriately evaluated. Attached is the *Building the FY 2027 Audit Plan: Our Risk Assessment and Audit Planning Process* Presentation, which provides an overview of the process Internal Audit will use to develop the proposed FY 2027 Audit Plan for the Committee's review and approval.

ATTACHMENT

A: Building the FY 2027 Audit Plan: Our Risk Assessment and Audit Planning Process
(Presentation)



ATTACHMENT A

Building the FY 2027 Audit Plan: Our Risk Assessment and Audit Planning Process

Presented by:
Leisha E. Collins, Chief Audit Executive

ACRE Approval of Audit Plan



In accordance with the Institute of Internal Auditors (IIA) Standards and the ACRE Charter, the Committee approves Internal Audit's risk-based Audit Plan, including the budget for resources and funding, to ensure the scope of governance, risk and control processes are adequately evaluated.

The Audit Plan Cycle



Risk Assessment Inputs: Three Categories of Risk



Operational Risks

Risks in day-to-day processes, people, and systems that could disrupt effective, efficient operations.

Examples: benefit payments, member services, IT systems, and financial controls.



Organizational Risks

Enterprise-level risks tied to governance, strategy, and compliance with organizational policies.

Examples: governance, strategic goals, staffing and succession, and regulatory compliance.



Emerging

New or evolving risks from changes in technology and the external environment.

Examples: artificial intelligence (AI), data integrity, cybersecurity, and funding stability.



A Redesigned, Risk-Focused Audit Plan

- Focuses on a six-month audit horizon, with additional risk-assessed areas deployed throughout the fiscal year.
- Restructures the Audit Plan to define audit timing and resource needs.
- Uses smaller audit teams to complete more audits on tighter timelines.
- Dedicates Internal Audit time to training in AI, technology, and operational enhancements.



Path to FY 2027 Audit Plan Approval


- Hold risk assessment discussions with Management and Leadership.
- Survey the ACRE on risks and areas of concern.
- Complete risk rating and analysis.
- Prioritize audit projects and engagements.
- Draft the proposed FY 2027 Audit Plan.
- Obtain ACRE approval at the August 2026 meeting.




April 30, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

Christian Velasco 
Senior Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Analysis of Human Resources' Employee Separation Data**

PURPOSE

The Fiscal Year Ending (FYE) 2026 Audit Plan includes an engagement related to Human Resources' Exit Interviews. This engagement responds to a March 2025 ACRE Committee request, following a discussion led by Mr. Rice, Chief Legal Counsel, on operationalizing culture through measurable indicators, including employee turnover.

This engagement aligns with the overall high-risk related to human capital, LACERA's Strategic Goal 3: Investing in People – Attract, motivate, hire, and retain a highly engaged and skilled workforce¹, and the Chief Executive Officer's focus on building a culture of excellence.

Internal Audit performed independent trend analysis of exit data from FYE 2021 through March 31, 2026, provided by Human Resources (HR), to support the Committee's oversight of workforce stability and cultural risk.

ENGAGEMENT SCOPE AND METHODOLOGY

The scope of work, agreed upon by Human Resources Management and Internal Audit, was to analyze LACERA's exit data provided by Human Resources to support the Committee's request.

¹ LACERA 2023-2028 Board of Retirement Strategic Plan

Internal Audit's methodology for this engagement included:

- Reviewing best practices and workforce statistics identified by the Society for Human Resources Management (SHRM), the California Department of Human Resources, and other sources,
- Gaining an understanding of LACERA's current Exit Interview process, and
- Assessing the exit data that Human Resources has available.

The scope of the engagement was limited to LACERA's current Exit Interview process and employee exit data from FYE 2021–March 31, 2026.

This engagement was performed as a value-added engagement, consisting of independent analysis of Human Resources' exit data, and did not include assurance nor advisory services.

ENGAGEMENT RESULTS

For the Fiscal Year Ending June 30, 2025, there were 21 employee separations, representing an attrition rate of approximately 4.7 percent when compared to total filled positions of 441 for the same period. Overall attrition at LACERA for this period is below the California Department of Human Resources' 2023 Annual Census Data (the most recent published report), which reflects statewide attrition of approximately 8 percent.

Due to the low level of employee turnover, Human Resources does not currently perform formal trend analysis for employee separations. Human Resources offers all separating employees the opportunity to: 1) complete an anonymous exit survey; and/or 2) participate in an exit interview. Human Resources stated that only about 20 percent of separating employees complete an exit survey or participate in an exit interview.

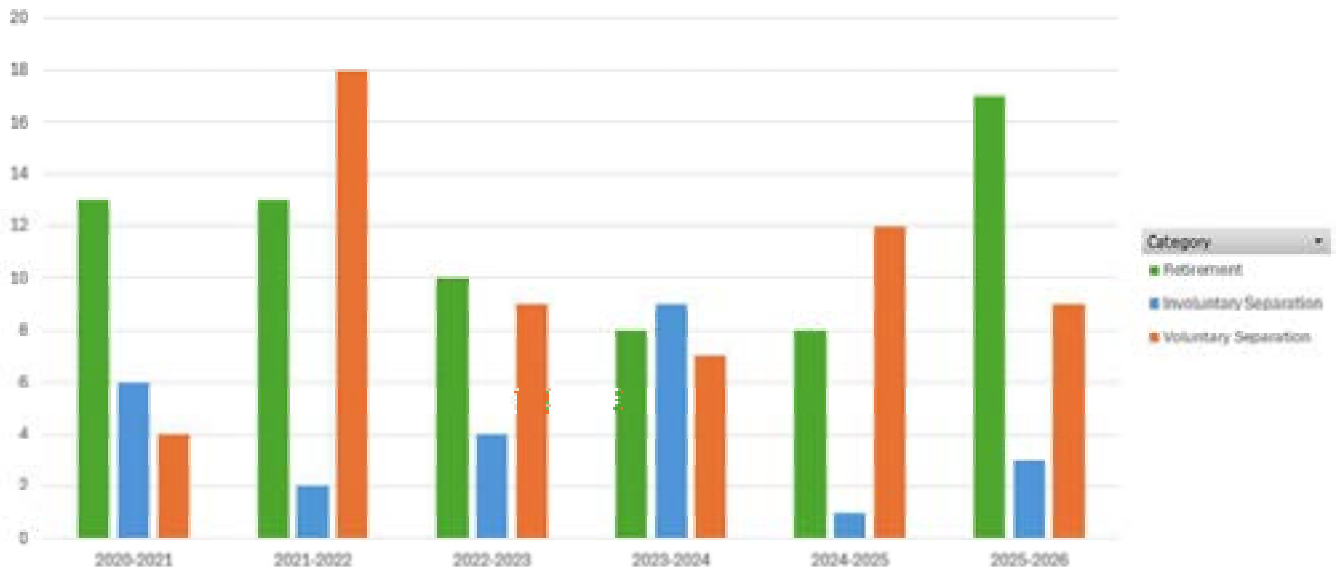
While qualitative exit feedback is limited, Human Resources records a high-level classification for the separation in HR Database Manager; they record if an employee is exiting due to retirement, involuntary separation, and voluntary separation. These reason codes are consistent with classifications used by the SHRM, the California Department of Human Resources' 2023 Annual Census, and Los Angeles County. Internal Audit analyzed this data for FYE 2021 through March 31, 2026, to identify high-level trends.

On the next page is a breakdown of Employee Exits by Retirement, Involuntary Separation (i.e., termination, deceased), and Voluntary Separation (i.e., resignation, transfer to a County Department) from FYE 2021–2026.

Analysis of Human Resources' Employee Separation Data

April 30, 2026

Page 3 of 4



Based on the data reviewed:

- During the period reviewed, there were 153 total employee exits, with annual attrition rates ranging from 4 to 7 percent. These rates were below the 2023 Annual Census benchmark of approximately 8 percent attrition rate.
- Retirement-related exits represent expected workforce transitions. During the period reviewed, there were 69 retirements, representing 45 percent of total separations. This percentage is consistent with the 2023 Annual Census, which reflects a comparable rate of 44 percent.
- Involuntary separations reflect LACERA managing its workforce. During the period reviewed, there were 25 involuntary separations, representing 17 percent of total separations. This percentage is 7 points higher than the 2023 Annual Census, which reflects 10 percent. Per Human Resources, involuntary separations were higher in FYEs 2021 and 2023 due to a combination of employee deaths and LACERA-initiated terminations, and 2024 due to many Retirement Benefits Specialist I who were not successful in the Specialist Basic Training Program.
- Voluntary separations reflect the employee initiating an exit for personal or professional reasons. While organizations expect some level of voluntary turnover, this metric should be monitored as it may indicate emerging retention or engagement risks. During the period reviewed, there were 58 voluntary separations, representing 38 percent of total separations. This percentage is 8 percent lower than the 2023 Annual Census, which reflects 46 percent.
- Average attrition rates by division during the period reviewed were within LACERA's overall projected attrition rate.

CONCLUSION

Internal Audit appreciates Human Resources' collaboration in providing the employee separation data and management context regarding separation reasons and exit interview practices.

Given LACERA's overall low employee turnover, Internal Audit suggests that the Executive Office, Ethics & Compliance, and Human Resources place greater emphasis on assessing employee engagement through either stay interviews for high-risk positions and culture surveys. These tools provide management forward-looking insight into employee engagement, retention drivers, and potential issues before employees decide to leave. Proactively monitoring organizational culture and employee engagement aligns with the Ethics and Compliance Office's responsibilities to promote an ethical workplace, identify emerging cultural risks, and support management in addressing concerns before they escalate.

Consistent with the Ethics and Compliance Program Charter, Section VII.H, *Channels for Staff to Report Ethics and Compliance Concerns*, management should consider formalizing a framework for receiving, assessing, and reporting employee concerns made during exit interviews, regardless of intake method or reason. This would include standardized documentation of findings and periodic, anonymized communication of key themes. Establishing this framework aligns with the Ethics & Compliance Office's responsibility and would support consistent evaluation and assignment of concerns, safeguard confidentiality, and promote appropriate escalation and oversight. Collectively, these practices would enhance transparency, support consistent issue resolution, and strengthen governance oversight.

Attachment:

A: Analysis of Human Resources' Employee Separation Data (Presentation)



ATTACHMENT A

Analysis of Human Resources' Employee Separation Data

Presented by:
Christian Velasco, Senior Internal Auditor

Purpose, Objective, and Scope



Purpose:

- Responds to a March 2025 ACRE Committee request on employee separations
- Aligns with LACERA's Strategic Goal 3—Investing in People
- Supports the Chief Executive Officer's focus on building a culture of excellence

Objective:

Provide insight into LACERA's attrition trends by:

- Gaining an understanding of LACERA's current Exit Interview process
- Assessing the exit data that Human Resources has available
- Reviewing best practices and workforce statistics

Scope:

Focused on LACERA's Exit Interview process and employee exit data from Fiscal Year Ending 2021–March 31, 2026.

Performed as a value-added engagement; did not include assurance or advisory services



LACERA's Attrition Rate



**FYE 2025 attrition is approximately 4.7%,
compared to the statewide benchmark of 8%**

LACERA Data as of June 30, 2025

- 441 Filled positions
- 21 employee separations

Benchmark

Statewide attrition rate 8% based on California Department of Human Resources 2023 Annual Census Data.

Separation Data by Category



Employees generally remain with LACERA through retirement

Retirement

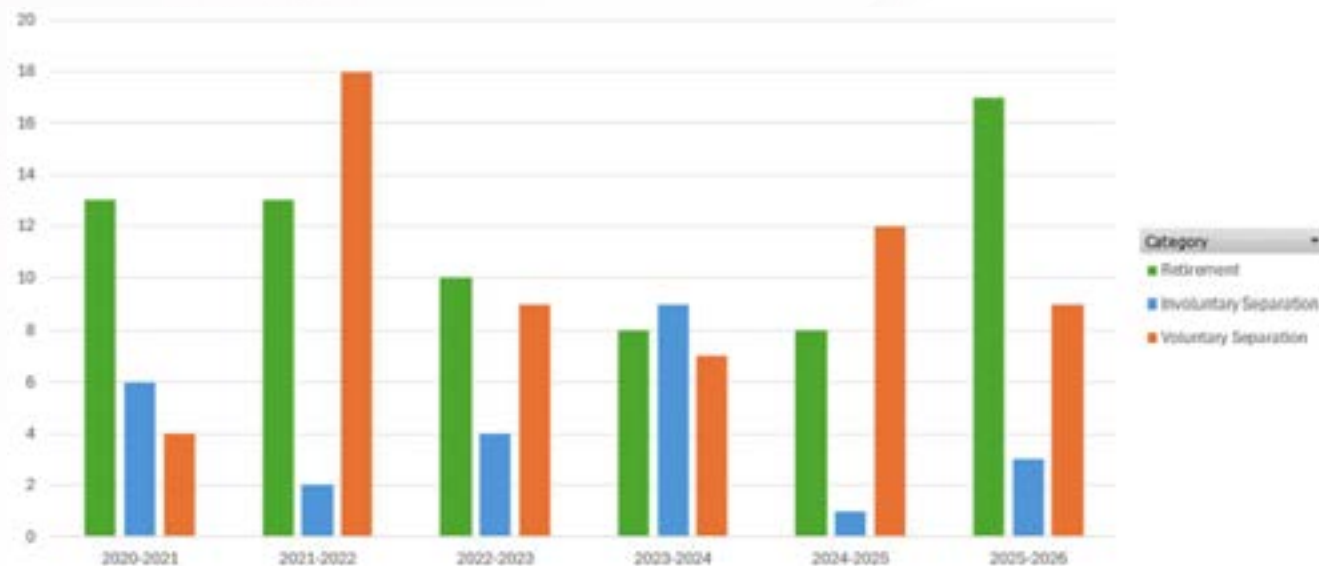
- 45% of LACERA total (69 of 153) vs 44% of benchmark total

Involuntary Separations

- 17% of LACERA total (25 of 153) vs 10% of benchmark total
- HR indicated driven by specific circumstances in certain years

Voluntary Separations

- 38% of LACERA total (58 of 153) vs 46% benchmark total



Key Takeaways



Separation trends indicate value in focusing on employee engagement

Potential areas for management consideration:

- Stay Interviews to understand employee engagement, retention drivers, and potential issues.
- Formalizing a framework for receiving, assessing, and reporting employee concerns during Exit Interviews.



Thank You



We would like to thank Human Resources Management and staff for their cooperation on this engagement and invite them to provide any comments.




**FOR INFORMATION ONLY**

June 9, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

Alex Ochoa 
Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Audit Pool Contract Extension Update**

BACKGROUND

Consistent with Section VII.A.2.b of the ACRE Charter, at its March 18, 2026 meeting, the ACRE Committee authorized Internal Audit to offer two-year contract extensions to Audit Pool professional service providers with agreements expiring between June and July 2026. The Committee also directed Internal Audit to reassess each firm as part of the contract extension process.

Inclusion in the Audit Pool permits firms to be considered for future engagements but does not guarantee the award of work.

EXTENSION STATUS

Internal Audit offered two-year contract extensions to five eligible providers, contingent upon completion of a questionnaire covering organizational updates, qualifications, and pending litigation, as well as execution of an updated master services agreement.

Three of the firms accepted Internal Audit's offer, and after reviewing the updated information, we began contract negotiations.

- The contracts with Net Force and Weaver & Tidwell, LLP have been executed and are now set to expire June 30, 2028.
- The contract with Vasquez & Company, LLP remains in negotiation.

Two of the firms, Baker Tilly LLP and KPMG LLP, did not respond to Internal Audit's offer. Their contracts will expire in July 2026 and the firms will be removed from the Audit Pool.

CURRENT AUDIT POOL

The table below summarizes the Audit Pool firms, contract expiration dates, and scope of services as of June 1, 2026:

Firm	Expiration Date	Investments	Technology	Organizational	Internal Audit
Baker Tilly LLP	07/09/26	X	X	X	
KPMG LLP	07/09/26	X	X	X	
Net Force	06/30/28		X		
Vasquez & Company LLP	Pending			X	
Weaver & Tidwell, LLP	06/30/28	X	X	X	
Armanino Advisory LLC	09/30/28			X	X
BDO USA	09/30/28			X	X
Canaudit, Inc.	11/05/28		X		
Crowe LLP	10/30/28		X	X	X
Eide Bailly LLP	07/09/28		X	X	X
GoldSRD	09/30/28				X
Grant Thornton LLP	09/30/28	X	X	X	X
MGO LLP	10/15/28	X	X	X	X
Simpson & Simpson, LLP	09/30/28		X		
TAP International, Inc.	11/21/28			X	X

**FOR INFORMATION ONLY**

June 18, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth B. Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Nathan K. Amick 
Senior Internal Auditor

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee Meeting

SUBJECT: **Fiscal Year Ending 2026 Audit Plan Status Report**

BACKGROUND

The Institute of Internal Auditors' Global Internal Audit Standard 9.4 requires the Chief Audit Executive (CAE) to develop an audit plan that aligns with the organization's objectives. The audit plan must be informed by a documented evaluation of strategies, objectives, and risks, and incorporate input from the board, senior management, and the CAE's understanding of governance, risk management, and control processes. This requirement is also reflected in the ACRE Charter.

STATUS REPORT

In June 2025, the ACRE Committee approved Internal Audit's 2025–2026 Audit Plan, which consisted of 46 projects. Following amendments approved at the November 2025 and March 2026 ACRE meetings, the Audit Plan now includes 34 projects.

As of the date of this memorandum, Internal Audit has completed eight projects (24%), is actively managing 15 continuous projects (44%), and has 10 projects (29%) currently in progress. One project (3%) has not yet commenced and is categorized as pending.

Continuous projects are ongoing initiatives that remain active and current but are either perpetual in nature or operate on multi-year cycles that conclude and restart within the same fiscal year. When completed and continuous projects are considered together, the overall completion rate is 68%.

A complete listing of the Audit Plan, including engagement statuses, is provided on page two of this memorandum.

Internal Audit's Annual Work Plan for FY 2025-2026 (at June 18, 2026)			
Division		Engagement Name	Status
ERM PROGRAM			
1	ERM Program	Hire Consultant to advise on design and development of ERM Program	In Progress
EXECUTIVE/ORGANIZATIONAL/LEGAL			
2	Exec Office	Trustee Education and Travel	In Progress
3	Exec Office	LA County Rehired Retirees (960)	Completed
4	Organizational	Continuous Audit Processing (CAP)	Continuous
5	Exec Office	CEO Credit Card Audit (Unplanned - expanded to full audit)	Completed
6	Organizational	Other Value-Added Projects	Continuous
7	Organizational	Recommendation Follow-Up	Continuous
8	Organizational	Risk Assessment - Revised Process	Continuous
9	Organizational	Information Technology Certification Council (ITCC) Priorities	In Progress
10	Organizational	Compliance with Policy Review Periods	In Progress
11	Legal Office	Public Disclosure Forms (fka: Form 700/801 Review)	Completed
12	Legal Office	Ethics and Compliance (Hotline)	Continuous
13	Legal Office / Admin	Centralized Vendor Management	In Progress
BUSINESS SERVICES - Admin Serv, HR, Systems, Info Sec			
14	HR	Analysis of Human Resources' Emp. Separation Data (*fka Exit Interviews)	Completed
15	Info Sec	Disaster Recovery **	Postponed
16	Systems	Oversight of Service Organization Controls (SOC) Audits FY 25 & 26	Continuous
17	Admin Serv	Business Continuity Management (From Prior Year)	Completed
18	Info Sec	Risk Assessment/NIST Follow-up Audit	In Progress
19	HR	HR Needs Assessment (Add)	In Progress
20	HR / Exec	Assessment of Section Head Recruitment	Completed
INVESTMENTS & FASD			
21	FASD	Readiness Assessment / ICFR / Roles and Responsibilities	Completed
22	FASD	Oversight of Financial Audit FY 25 & 26	Continuous
23	FASD/Inv	Oversight of Actuarial Audit FY 25 & 26	Continuous
24	Inv	Strategic Asset Allocation	Completed
OPERATIONS - Benefits, DRS, RHC, Member Services			
25	Benefits / Legal	Felony Forfeitures	In Progress
26	Benefits	Unclaimed Accounts	In Progress
27	Mbr Serv	Member Appointment System Audit	In Progress
INTERNAL AUDIT OPERATIONS			
28	IA	Quality Assurance Improvement Program	Continuous
29	IA	IA Data Analytic Development	Continuous
30	IA	MAC and ACRE Committee Training	Continuous
31	IA	ACRE Committee Support	Continuous
32	IA	Internal Audit 3-Year Roadmap	Continuous
33	IA	IA Staff Training Plan	Continuous
34	IA	Continuous Audit Process Framework	Continuous

** = The Disaster Recovery engagement was initiated in FYE 2026, however due competing priorities it has been Postponed until FYE 2027

Attachments:

Attachment A: Fiscal Year End 2026 Internal Audit Plan Status Report (Presentation)



ATTACHMENT A

Fiscal Year End 2026 Internal Audit Plan Status Report

(at June 18, 2026)

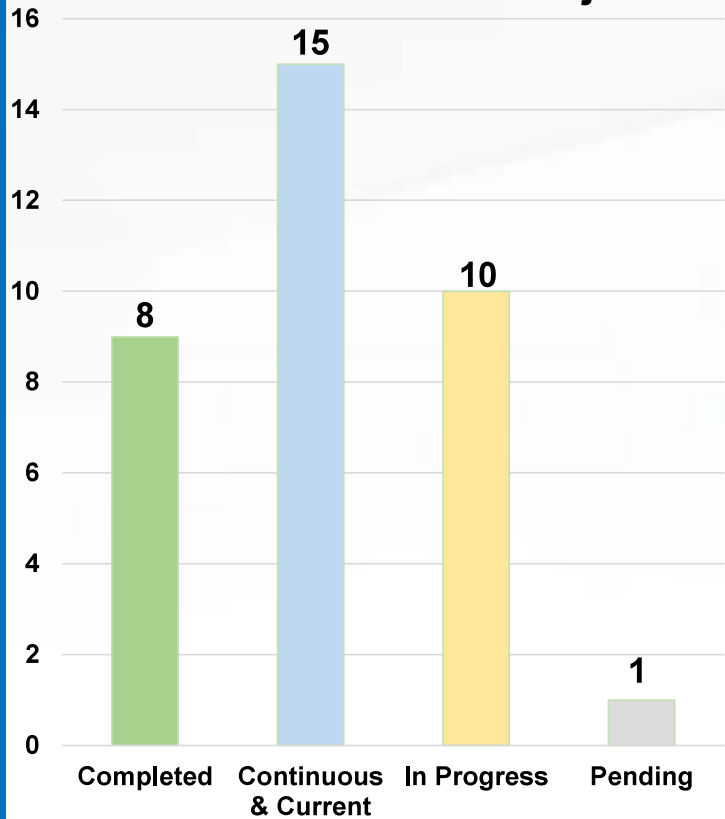
Presented by:

Nathan Amick, Senior Internal Auditor

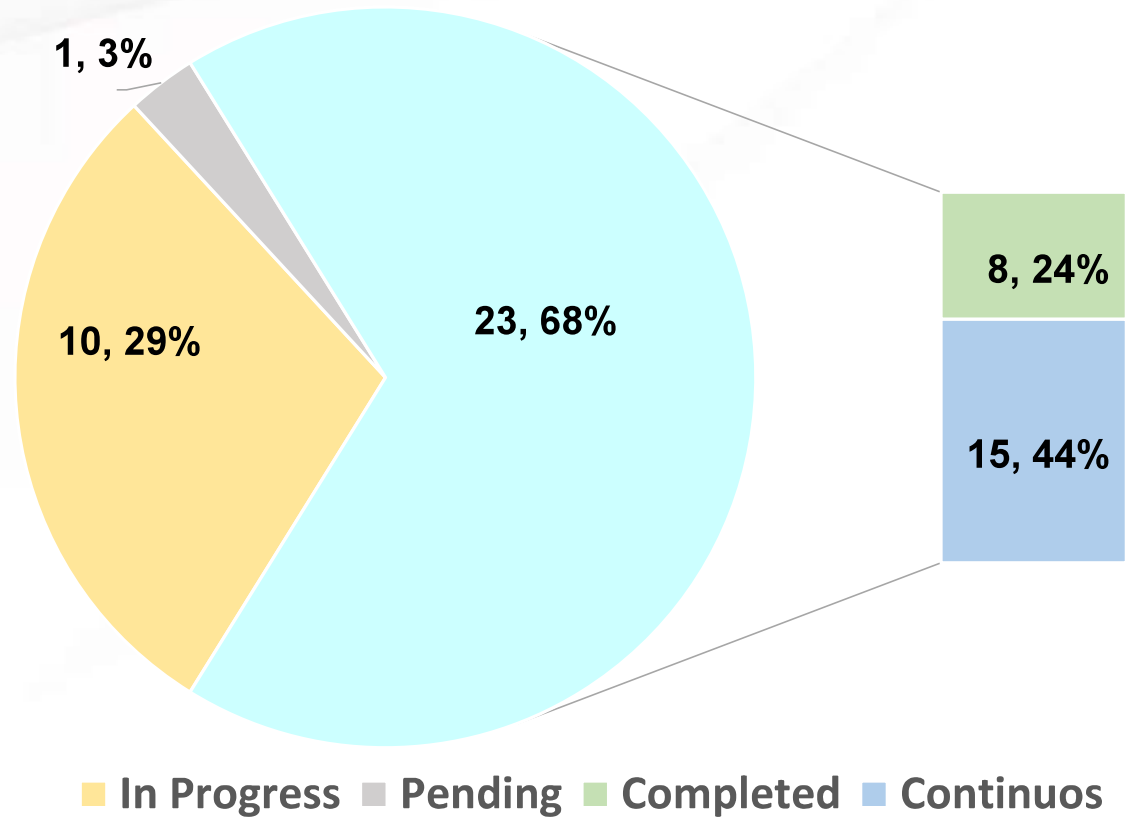
FYE 2026 Audit Project Dashboard (at June 18, 2026)



Status of Audits and Projects



Percentage of Completion – 34 Projects





Recently Completed Audit Projects & Engagements

(since May 31, 2026)

Completed Since Last Audit Committee Meeting	Project Type	Report Date
LA County Rehired Retirees (960)	Assurance	5/14/26
Public Disclosure Forms	Assurance	5/15/26
Analysis of Human Resources' Employee Separation Data	Value Add	5/30/2026
Business Continuity Management	Advisory	5/31/2026
Readiness Assessment - ICFR - Roles & Responsibilities	Advisory	6/09/26
Strategic Asset Allocation	Assurance	6/09/26



Status of Significant FYE 2026 Projects (at June 18, 2026)



Project	Engagement Type	Division	Audit Team	Planning	Fieldwork	Draft Report	Exit Meeting	Report
Analysis of Human Resources' Emp. Separation Data (*fka Exit Interviews)	Value Add	HR	Internal Audit	→				
Assessment of Section Head Recruitment	Assurance	HR	Internal Audit	→				
Business Continuity Management (From Prior Year)	Advisory	Admin	Internal Audit	→				
Centralized Vendor Management	Advisory	Admin	Internal Audit	→				
CEO Credit Card Audit (Unplanned - expanded to full audit)	Assurance	Exec	Internal Audit	→				
Compliance with Policy Review Periods	Advisory	Exec	Internal Audit	→				
Disaster Recovery (<i>Postponed until FYE 2027</i>)	Advisory	InfoSec	Weaver					
Felony Forfeitures	Assurance	Benefits	Internal Audit	→				
HR Needs Assessment	Advisory	HR	LCW	→				
Information Technology Certification Council Priorities	Advisory	InfoSec	Internal Audit	→				
LA County Rehired Retirees (960)	Assurance	Exec	Internal Audit	→				
Member Appointment System Audit	Assurance	Mbr Srvc	Internal Audit	→				
Public Disclosure Forms (fka: Form 700/801 Review)	Assurance	Leagl	Internal Audit	→				
Readiness Assessment / ICFR / Roles and Responsibilities	Advisory	FASD	CLA	→				
Risk Assessment/NIST Follow-up Audit	Assurance	IT/InfoSec	Crowe	→				
Strategic Asset Allocation	Assurance	Inv	Internal Audit	→				
Trustee Education and Travel	Assurance	FASD/Exec	Crowe	→				
Unclaimed Accounts	Assurance	Benefits	Internal Audit	→				

Questions




FOR INFORMATION ONLY

June 17, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Leisha E. Collins 
Chief Audit Executive

Delfino Aguilar 
Senior Internal Auditor

FOR: June 24, 2026, Audit Compliance, Risk, and Ethics (ACRE) Committee Meeting

SUBJECT: **Recommendation Follow-Up Report**

Background

The ACRE Charter (Charter), Section VII.A.1.i, mandates that the Committee monitor Internal Audit's recommendations to ensure management has adequately and timely addressed the identified risks. In addition, the Institute of Internal Auditors (IIA) Standard 15.2 requires internal auditors to confirm that management has implemented the internal auditor's recommendations and/or management's action plans following an established methodology. Accordingly, Internal Audit maintains a follow-up process to monitor and ensure recommendations have been effectively implemented.

Recommendation Follow-Up Process

During the audit process, Internal Audit records findings and provides recommendations to mitigate risks and improve processes. Final audit reports include audit findings, recommendations, management responses, and targeted completion dates. Internal Audit tracks both audit recommendations and long-term strategic recommendations. Audit recommendations are focused on improving internal controls while strategic recommendations are centered on organizational risks that may impact LACERA in the future. Each month, Internal Audit monitors management's progress towards implementing outstanding recommendations and verifies the implementation before marking the finding as complete.

Recommendation Monitoring and Reporting

The purpose of this report is to inform the Committee about the status of recommendations and keep the Committee apprised of any recommendation updates requiring additional action. Six (6) organizational recommendations have been implemented (closed) while four (4) recommendations have been added; therefore, there are six (6) outstanding recommendations as of June 17, 2026. The following dashboard summarizes the status of closed and pending audit recommendations. Refer to Attachment A.1 for details.

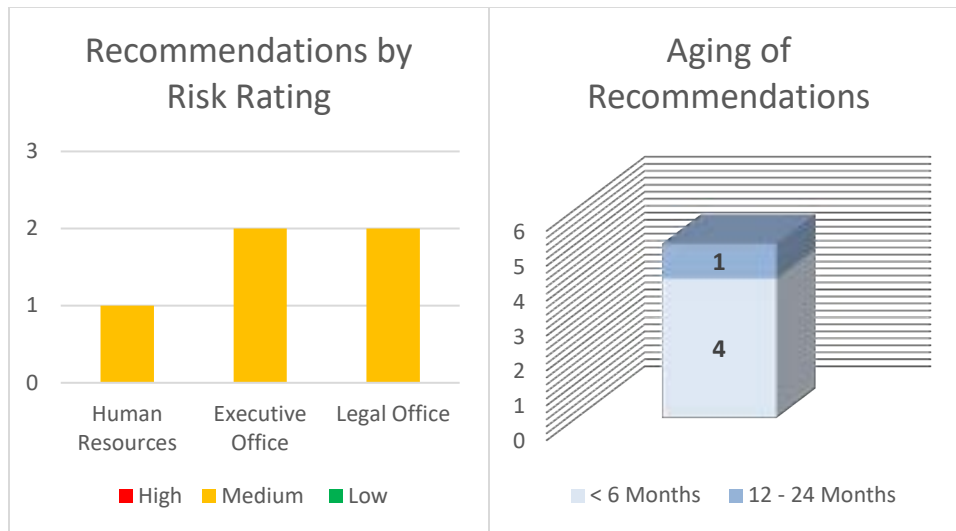
Recommendation in Progress as of 2/28/2026	Newly Added Recommendations	Closed Recommendations & Auditor Verified	Recommendations in Progress as of 6/17/2026
7	4	-6	5

Below details the closed recommendations:

Engagement	Management’s Remediation	Risk
Advisory Review of HR Recruiting Process	Internal Audit, in coordination with HR Management, engaged an external consultant to conduct a divisional needs assessment of the HR function. The engagement commenced in April 2026 and is expected to be completed by July 2026.	Low
Termination of User Access Process	The automated Off-boarding process ensures that keycard and network access is deactivated in a timely manner. Of the four cases reviewed to close the recommendation, we verified that the tasks for network-access deactivation and keycard-access deactivation were completed. All four case tasks were completed.	High
	The application inventory maintained by the Systems Division includes both Single Sign-On (SSO) and non-SSO applications. The inventory is reviewed on a quarterly and ongoing basis as part of the Software & Firmware Updates Procedure to identify opportunities to enable SSO for applicable non SSO applications.	
	Systems Division management maintains a complete and current inventory of all non-SSO applications within LACERA. Based on our testwork and mitigating controls as noted, the recommendation is implemented and closed out.	
	Process improvements have been made to adequately monitor and deactivate user access to non-network applications. Based on our testwork and the mitigating controls as noted, the recommendation is implemented and closed out.	
	<i>Note: This implemented recommendation remedies two (2) separate recommendations, which totals four (4) closed recommendations for the Termination of User Access Process Audit.</i>	

Audit Report	Management's Remediation	Risk
Board Vantage Security Settings	The Information Security Office has implemented monitoring to mitigate this risk. However, with LACERA's evolving portfolio of new and enhanced software applications warrants additional consideration. Accordingly, Internal Audit is incorporating these application-related risks into its risk assessment process for consideration in future audit plans.	High

The graphs below detail the outstanding recommendations by Risk Rating and Aging:



As of the most recent reporting period, there are eleven (11) strategic recommendations in progress. Refer to Attachment A.2 for details.

Strategic Recommendations in Progress as of 2/28/2026	Newly Added Strategic Recommendations	Closed Strategic Recommendations Pending Auditor Verification	Strategic Recommendations in Progress as of 6/17/2026
11	0	0	11

Staff from the respective divisions will be present at the June 2026 ACRE meeting to address any questions.

Attachments:

- A.1 Recommendation Status Report – Organizational
- A.2 Recommendation Status Report - Strategic

Reco Ref	Finding	Risk	Recommendation	Status	Summary of Progress as of 06/17/2026	Initial Target Date	New Target Date (if in Progress) or Closure Date (if Closed)	Extensions					Days Outstanding Since Audit Report Date
								1	2	3	4	5	
HR - CAP BONUS REVIEW FYE 2024 - REPORT DATE 09/04/2024													
F1	Adopt Revised Policies	Med	Upon approval and adoption of a revised Policy and procedure(s), Management and HR should ensure that necessary management, supervisors and staff are adequately trained on the Policy and procedures to ensure compliance.	In Progress	A draft of the revised bonus policy was reviewed by the ECC subcommittee. The Policy includes process revisions and revisions based on Memorandum of Understanding (MOU) updates. Concerns about the bonus review timeline outlined in the policy were escalated to the executive office to assess compliance with previous audits.	03/31/2025	08/19/2026	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	634
HR - Advisory Review of HR Recruiting Process - REPORT DATE 04/07/2025													
F1	HR Divisional Needs Assessment Note: This finding replaces Finding F2.3 from the 2022 HR Recruiting & Hiring Report	Low	HR should perform a needs assessment to determine whether additional resources are needed by performing the following activities: i.) an evaluation of the competencies of the team; ii.) performing a skills and capabilities assessment; iii.) identifying areas of strengths and professional development needs; iv.) an analysis of the division's tasks performed; and v.) the associated time requirements.	Closed	Internal Audit, in coordination with HR Management, engaged an external consultant to conduct a divisional needs assessment of the HR function. The engagement commenced in April 2026 and is expected to be completed by July 2026.	06/30/2026		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	419
HR/Systems/Brd Asst -Termination of User Access Process - REPORT DATE 08/30/2024													
F6	3. Systems Access was not consistently deactivated in a timely manner.	High	6. HR, Systems, and the Executive Board Assistants collaborate in establishing a timeline and criteria to ensure timely removal of user access rights upon termination [for inclusion in the policies/procedures developed per recommendation #1].	Closed	The automated Off-boarding process ensures that keycard and network access is deactivated in a timely manner. Of the four cases reviewed to close the recommendation, we verified that the tasks for network-access deactivation and keycard-access deactivation were completed. All four case tasks were completed.	12/31/2024	12/31/2025	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	639
F8	4. Process improvements are needed to adequately monitor and deactivate user access to non-network applications.	High	8. Systems Division Management should maintain a complete and current inventory of all non-SSO applications within LACERA.	Closed	The application inventory maintained by the Systems Division includes both Single Sign-On (SSO) and non-SSO applications. The inventory is reviewed on a quarterly and ongoing basis as part of the Software & Firmware Updates Procedure to identify opportunities to enable SSO for applicable non-SSO applications. Systems Division management maintains a complete and current inventory of all non SSO applications within LACERA. Based on our testwork and mitigating controls as noted, the recommendation is implemented and closed out.	12/31/2024	12/31/2025	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	639
F9	4. Process improvements are needed to adequately monitor and deactivate user access to non-network applications.	High	9. Systems Division Management should continue in their effort to incorporate current non-SSO applications under the SSO control umbrella whenever feasible.	Closed	Process improvements have been made to adequately monitor and deactivate user access to non-network applications. Based on our testwork and the mitigating controls as noted, the recommendation is implemented and closed out.	12/31/2024	12/31/2025	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	639
F10	4. Process improvements are needed to adequately monitor and deactivate user access to non-network applications.	High	10. HR Management should ensure that updates to the Offboarding process include procedures for notifying and ensuring that managers who oversee non-SSO applications remove terminated staff from those applications.	Closed	Process improvements have been made to adequately monitor and deactivate user access to non-network applications. Based on our testwork and the mitigating controls as noted, the recommendation is implemented and closed out.	12/31/2024	12/31/2025	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	639
InfoSec - Board Vantage Security Settings - REPORT DATE 10/21/2022													
F1	Audit trails were deficient or non-existent	High	LACERA's Information Security Office should require and ensure that appropriate and available audit trails are built and/turned on, and periodically reviewed for all LACERA applications.	Closed	The Information Security Office has implemented monitoring to mitigate this risk. However, with LACERA's evolving portfolio of new and enhanced software applications warrants additional consideration. Accordingly, Internal Audit is incorporating these application-related risks into its risk assessment process for consideration in future audit plans.	06/30/2023	6/16/2026	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	1318
Legal Office - Public Disclosure Forms Audit - REPORT DATE 05/15/2026													
F1	7.1 Finding: Inadequate Training for Public Disclosure Forms	Med	1. In addition to the current plan for regular training to Trustees and employees, the Legal Office should establish an organizational-wide training program for individuals required to complete disclosure forms or involved in the process. This training could be included in other training provided on the Code of Ethical Conduct or other ethics-related training. 2. The Legal Office Management should track attendance and retain training materials per FPPC Regulations and establish a schedule for updates.	In Progress	This report was recently issued. Agrees with Finding and Recommendation. Management agrees that there are opportunities for training enhancement in line with the Audit Observations and Recommendation above. Core Board and staff training, including training on disclosure forms and related matters, will be included in a legal presentation at the Board of Retirement offsite meeting on May 18, 2026. Staff will undertake additional steps to implement training in line with the Audit Observations and Recommendation.	09/30/2026		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16

Reco Ref	Finding	Risk	Recommendation	Status	Summary of Progress as of 06/17/2026	Initial Target Date	New Target Date (if in Progress) or Closure Date (if Closed)	Extensions					Days Outstanding Since Audit Report Date
								1	2	3	4	5	
F2	6.2 Finding: Form 801 – Documentation and Monitoring Deficiencies	Med	Legal Office Management should establish standardized procedures to resolve the gaps identified in this audit. The procedures should describe the required Form 801 documentation, detail payment routing and filing requirements. The Procedures should also clearly define roles and responsibilities for each division involved in the process.	In Progress	Agrees with Finding and Recommendation. Management agrees that there are areas for the Legal Office, and FASD in the case of routing payments, to refine the largely successful and effective plan developed, reported to the Board in 2023 and thereafter, by implementing the enhancements listed in the Audit Observations and Recommendation above.	12/31/2026		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16
Executive Office - LA County Rehired Retirees - FYE 2025 - REPORT DATE 05/14/2026													
F1	PPG-505 On-Boarding Procedures Improvement	Med	Benefits Division management should establish procedures to ensure timely receipt, monitoring, and retention of PPG-505 Waiver Forms, including clear compliance ownership, a tracking and reconciliation control with County departmental HR divisions, escalation protocols for unreceived waivers, formal documentation of the DPC's intake role, and periodic management reviews. Internal Audit determined that the current Waiver Forms process has significant control gaps, rendering it inefficient and ineffective at ensuring LACERA receives proper Rehired Retiree compliance documentation. The process also lacks a specific requirement regarding Limited Duration assignments. These enhancements are necessary to ensure all rehired retirees subject to the 120-day temporary assignment requirement have a corresponding PPG-505 Waiver on file.	In Progress	The Benefits Division agrees with these recommendations. Benefits will develop a procedure and assign monitoring as recommended. Anticipated date of completion is December 31, 2026.	12/31/2026		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16
F2	Continued Violation of PEPRA's "limited duration" language.	Med	We restate our recommendation from our previous audit reports from fiscal years ending 2021 through 2024 that: 1. LACERA's Executive Office and Legal Office continue their discussions with the County regarding limited duration and whether policy provisions or practices can be added or strengthened to explicitly address the statutory requirement of limited duration. 2. LACERA's Executive Office and Legal Office work with the Board of Retirement to determine a more defined definition, tracking, and annual review of limited duration for County retirees, in addition to the current policy for LACERA employees, to ensure compliance with PEPRA and provide for recovery of benefits paid during periods worked in violation of PEPRA law.	In Progress	Management agrees with the finding and recommendation. Management will continue to communicate with the County CEO's Office, Department of Human Resources, and County Counsel regarding the need to comply with the "limited duration" requirement and whether policy provisions or practices can be added or strengthened to explicitly address the requirement. Management has previously discussed this issue with the Board of Retirement on several occasions. Management will return to the Board as needed. Management supports continued annual audits of limited duration by Internal Audit as an effective means of communicating information about the County's compliance with the limited duration based on actual data as to the tenure of the County's rehired retirees by department. As part of future audits, Management suggests that Internal Audit obtain copies of all annual justifications so that explanations for extensions can be reviewed.	06/30/2027		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	16

Project Name	Report Date	Finding Title	Recommendation	Detailed Status as of 06/17/2026	Overall Status
COSO: Forecasting / Budgeting					
Risk & Controls Assessment - Retiree Healthcare	07/14/2022	OBS 4 - Retiree Healthcare (RHC's) administrative fee process is not formalized.	N/A - This was a strategic observation made by Internal Audit.	The Executive Office, Legal Office, and Retiree Healthcare teams have drafted a Letter of Agreement formalizing the Retiree Healthcare and County process. Final draft is expected to be completed by January 2026.	In Progress
COSO: Internal & External Reporting					
Organizational Governance Review	07/20/2022	OBS 7 - LACERA does not have a communication plan.	LACERA should finalize the existing draft Communication Plan for the organization. In addition, guidelines for style and format of reporting should be developed to ensure consistency. Staff should be trained on the implemented Communication Plan and style and format guidelines.	The Executive Office and Communications team is working on finalizing the Communication Plan and implementation will be completed by June 2028.	In Progress
COSO: Organizational Structure					
Quality Assurance (QA) Operations Review	04/09/2021	Finding #1 - The QA Division's independence is weakened when reporting to the same Assistant Executive Officer (AEO) over the operational areas in which they perform quality assurance audits.	LACERA Executive Management should work with QA and the Member Operations Group (MOG) Divisions to develop a plan and timeline for a) relocating training and metrics out of the QA Division to an operational division, and b) changing the reporting structure such that the QA Division reports independently to the Administrative AEO.	LACERA has issued an Request for Proposal (RFP) for an Organizational Consultant who will be evaluating both the Process Management Group and Quality Assurance and provide a recommendation for an organizational structure that support our strategic plan and the needs of the Member Operations Group. Following the consultants recommendations the Executive Office has completed the 2025-2026 Plan. The RFP is currently in the selection stage. Currently, there is no ETA for completion until vendor management addresses this through legal, an agreement is signed, and the Statement of Work (SOW) is set.	In Progress
Organizational Governance Review	07/20/2022	OBS 6 - LACERA does not have a formal enterprise fraud prevention and detection program.	LACERA should implement a formal fraud prevention and detection program that includes a policy separate from the Code of Ethical Conduct, consistent training for staff including how to report suspected fraud, and a process to incorporate what is learned from the fraud reporting into the organization's policies.	In Q2 of Fiscal Year 2026, Internal Audit will be initiating a request for bids from the external audit firm pool to hire an ERM consultant. The consultant will advise and assist us in developing a timeline and plan for implementing a formal ERM program. The development of a formal fraud prevention and detection program will be included in that timeline.	In Progress
COSO: Performance Measures					
Quality Assurance Operations Review	04/09/2021	Finding #6: QA management does not have an annual quality assurance audit plan and does not have metrics and KPIs for managing their staff's work.	QA management should develop an annual quality assurance audit plan and key performance indicators (KPIs) to allocate and monitor QA staff resources.	Substantial work has been completed and QA has submitted a draft audit plan to the Executive Office. The Annual QA Production Plan for Fiscal Year 2025-2026, has been developed and currently under review with the Executive Office.	In Progress

Project Name	Report Date	Finding Title	Recommendation	Detailed Status as of 06/17/2026	Overall Status
Organizational Governance Review	07/20/2022	OBS 8 - LACERA lacks defined Key Performance Indicators (KPI).	LACERA should develop and implement key performance indicators (KPI's) for any divisions that have not yet defined them. The KPI's should be quantifiable and be linked to the goals of the organization as established in the Strategic Plan. In addition, reporting mechanisms should be established for the reporting of the KPI's so that the data can be used to inform decision making.	As part of the 2023-2028 Strategic Plan - Innovation through Technology, the Systems Division is working with each Division on dashboards that provide metrics around performance, resource allocation and other key factors.	In Progress
COSO: Risk Assessment					
Organizational Governance Review	07/20/2022	OBS 9 - LACERA does not have a formal enterprise risk management and compliance program.	LACERA should implement a formal enterprise risk management and compliance program for the organization that includes identification of risks and how to address those risks. The risk information should be used by the organization to make decisions.	In Q2 of Fiscal Year 2026, Internal Audit will be initiating a request for bids from the external audit firm pool to hire an ERM consultant. The consultant will advise and assist us in developing a timeline and plan for implementing a formal ERM program. The development of a formal fraud prevention and detection program will be included in that timeline.	In Progress
COSO: Training and Development & Talent Management					
Organizational Governance Review	07/20/2022	OBS 3 - LACERA has not implemented a professional development plan.	LACERA executive leadership should engage in a facilitated analysis of employees across the organization and identify specific development needs of employee classifications and functional groups.	As part of the 2023-2028 Strategic Plan - Investing in People, the Executive Office and Human Resources team are collaborating on a plan focused on employee and professional development starting in FY 2025-2026. Reporting on this plan will be part of the strategic plan reporting.	In Progress
Organizational Governance Review	07/20/2022	OBS 4 - LACERA does not have a succession plan.	LACERA should implement a succession planning process to ensure that the organization can maintain a workforce that collectively possesses the core competencies and skills needed to accomplish its strategic objectives.	The strategic priority goals of the Board of Retirement's 5-year Strategic Plan (FY2023-2028) does not include the implementation of a succession plan, although the work that is being conducted as part of the Strategic Plan will be critical for creating a succession plan in the future.	In Progress
Recruitment and Hiring Process - Advisory	04/07/2025	LACERA does not have a workforce plan.	Develop an enterprise-wide workforce plan focused on evaluating employee attrition related to retirement risks and addressing current vacancy rate.	HR and Executive Management have updated the reporting for vacancy rate in the CEO dashboard to the Board of Retirement. The evaluation of employee attrition rate will be performed as part of the pre-work for succession planning as part of the Board of Retirement's 5-Year Strategic Plan. The current recommendation supersedes the Eide Bailly recommendation since the recruitment operations have changed significantly since the issuance of the original recommendation in 2022.	In Progress
Recruitment and Hiring Process - Advisory	04/07/2025	Divisional needs assessment remains pending from April 2022 Eide Bailly recommendation.	HR should perform a divisional needs assessment to determine whether additional resources are needed.	HR management has developed the scope of work for the divisional needs assessment. Currently, HR is working with the Vendor Management Unit to identify vendors that can perform the work through the Request for Statement of Qualifications (RFSQ) process. The RFSQ solicitation will simplify the procurement process for potential providers.	In Progress




FOR INFORMATION ONLY

May 29, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
 Debbie Martin (BOI), Chair
 Nicole Mi (BOI), Vice Chair
 Aleen Langton (BOR), Secretary
 Trevor Fay (BOI), Trustee
 Bobbie Fesler (BOR), Trustee
 Shawn R. Kehoe (BOR), Trustee
 Elizabeth B. Ginsberg, Ex-Officio

ACRE Committee Consultant
 Larry Jensen

FROM: Gabriel Tafoya 
 Senior Internal Auditor

FOR: June 24, 2026, Audit Compliance, Risk, and Ethics (ACRE) Committee Meeting

SUBJECT: **Recommendation Follow-Up for Sensitive Information Technology Areas**

The ACRE Charter (Charter), section VII.A.1.i., states that the Committee monitors Internal Audit’s recommendations to ensure Management has adequately and timely addressed the identified risks. The purpose of this memorandum is to update the Committee on the status of recommendations related to system and network security audits and assessments to keep the Committee informed.

As indicated in Table 1, two recommendations remain outstanding since our last report in March 2026.

Table 1: Current Recommendation Status as of 05/29/2026:

Audit Report	Auditor	Rating	Recos as of 3/1/2026	New Reco	Recos Closed 5/29/2026	Total
Pen Test and VeraCode Report - Mar 2020	Clear Skies	Med	1	-	-	1
Pen Test and VeraCode Report - Mar 2020	Clear Skies	Low	1	-	-	1
TOTAL			2	-	-	2

Information Technology General Controls (ITGC) are fundamental controls that apply to IT systems, including applications, operating systems, databases, and supporting infrastructure. The primary objective of ITGC is to ensure the integrity of the data and processes facilitated by these systems. Table 2 provides an outline of the types and statuses of recommendations reported to the Committee.

Table 2: Recommendations Status – By IT General Control Areas

ITGC	Control Description	Open Recos 5/29/26
Data Back Up & Recovery	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.	—
Environmental	Controls provide reasonable assurance that systems equipment and data are adequately protected from environmental factors.	—
Information Security	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.	—
Logical Access	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.	1
Physical Security	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.	—
System Development & Change Management	Controls provide reasonable assurance that changes to or development of applications are authorized, tested, and approved. Controls also provide reasonable assurance that segregation of duties exist.	—
System Monitoring & Maintenance	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.	1
Totals		2

Internal Audit will continue to update the ACRE Committee on the status of recommendations at each Committee meeting.

Staff will be available to address questions at the June 2026 ACRE Committee Meeting, but please remember that due to the sensitive nature of these IT recommendations, we cannot provide additional details.

**FOR INFORMATION ONLY**

May 30, 2026

TO: Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Chair
Nicole Mi (BOI), Vice Chair
Aleen Langton (BOR), Secretary
Trevor Fay (BOI), Trustee
Bobbie Fesler (BOR), Trustee
Shawn R. Kehoe (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

ACRE Committee Consultant
Larry Jensen

FROM: Leisha E. Collins 
Chief Audit Executive

FOR: June 24, 2026 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Ethics Hotline Status Report**

BACKGROUND

LACERA is committed to upholding its values, advocating ethical behavior, and acting in compliance with applicable laws, regulations, policies, procedures, and LACERA's Code of Ethical Conduct. To support this commitment, LACERA maintains a confidential and anonymous Ethics Hotline and a strict policy of non-retaliation when reporting questionable behavior.

The ACRE Charter, section VII.B.9.b., states that the Committee reviews a summary of LACERA's Ethics Hotline Reports. Accordingly, the purpose of this memorandum is to provide the Committee with an update on cases reported to LACERA through the Ethics Hotline. Please refer to the table on page 2.

ETHICS HOTLINE STATUS REPORT

Since the last report in March 2026, we have received one new case and closed one case. The following report provides a summary of cases as of May 30, 2026:

#	Report Month	Incident Category	Source	Issue	Assign To	Status	Control Deficiency
25	Aug 2025	Discrimination	Hotline Website	Inconsistent application of Telework Policy	HR	Closed	
26	Nov 2025	Conflict of Interest	Hotline Website	Conflict of Interest – Allegation of unfair vendor selection	Legal	Investigation In Progress	
27	Jan 2026	Discrimination or Harassment	Hotline Website	Accusation of unfair treatment of staff	HR	Investigation in Progress	
29	April 2026	Discrimination or Harassment	Hotline Website	Accusation of unfair treatment of staff	Legal	Investigation in Progress	

Internal Audit has not identified any matters of fraud in any of our recent or current audit and consulting work. Staff will continue to provide updates to the Committee on future reports.