



A Tradition of Stewardship
A Commitment to Service

**Yolo County's
Internal Audit Activity**

**External Quality Assessment
For the Three Years Ended June 30, 2017**

Issued by
**NAPA COUNTY
AUDITOR-CONTROLLER
Internal Audit Section
May 3, 2018**

**Yolo County's
Internal Audit Activity**

**External Quality Assessment
For The Three Years Ended June 30, 2017
Table of Contents**

Executive Summary 1

 Summary of Observations..... 1

 Opinion as to Conformance with the *Standards*..... 3

Key Facts and Background 4

Objectives, Scope and Methodology 5

Detail Observations and Recommendations

 Part I—Successful Internal Audit Practices 7

 Part II—Gaps to Conformance with the *Standards*

 Standard 1110 – Organizational Independence 8

 Standard 1130 – Impairment to Independence or Objectivity 9

 Part III—Opportunities for Continuous Improvement

 Standard 1311 – Internal Assessment 10

 Standard 1312 – External Assessment 10

 Standard 1320 – Reporting on the Quality Assurance
 And Improvement Program..... 11

 Standard 2060 – Reporting to Senior Management and the Board 11

 Standard 2330.A2 – Documenting Information 12

 Standard 2420 – Quality of Communication..... 12

Table of Contents
(Continued)

Detail Observations and Recommendations (Continued)

Part IV—Status of 2003 External Assessment Recommendations

Part I – Matter for Consideration by Yolo County Management
Complete the Annual Risk Assessment Process.....14

Part II – Issues Specific to the Internal Audit Activity
Insufficient Documentation to Support the Continuing Professional
Development of Internal Audit Staff.....14

Conclusion14

Appendix A – Evaluation Summary.....15

Appendix B – Rating Definitions20

Appendix C – Observation Categories21



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Executive Summary

The *International Standards for the Professional Practice of Internal Auditing (Standards)* requires that an external quality assessment of the Yolo County internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from an outside organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The assessment can be accomplished through a full external assessment or a self-assessment with independent validation. However, when audits are performed in accordance with the attestation standards established by the *American Institute of Certified Public Accountants* the review must occur every three years.

The Chief Audit Executive discussed the form and frequency of the quality assessment, as well as the independence and qualifications of the external assessment team, including any potential conflicts of interest with the board. Upon consultation and agreement by the board, Yolo County selected Napa County Internal Audit Section (Napa County) as the qualified, independent external assessment team to conduct a full external assessment of the internal audit activity of Yolo County.

We conducted the peer review during the period of March 2018 through May 2018 for the period of July 1, 2014 through June 30, 2017. We utilized the *Standards (Revised January 2017)* as well as the Institute of Internal Auditors *Quality Assessment Manual for the Internal Audit Activity (2017)* as the primary criteria for our evaluation.

Summary of Observations

The following is a summarization of the observations described in detail starting on page 7 of gaps to conformance with the *Standards* or the Code of Ethics and opportunities for continuous improvement:

➤ Gaps to Conformance

- ✓ Standard 1110 – Organizational Independence - Chief Audit Executive reports administratively to the appointed Chief Financial Officer. Though the current holders of the positions are able to carry out their responsibilities in an unbiased manner, this may not be the case for future employees. The Financial Oversight Committee's Charter dated September 22, 2014, is silent on specific tasks related to the Internal Audit Division.

Summary of Observations (Continued)

➤ Gaps to Conformance (Continued)

- ✓ Standard 1130 – Impairment to Independence or Objectivity - Potential appearance of impairment due to reporting administratively to an appointed Chief Financial Officer was evaluated and confirmed through the results of the surveys received as part of the external peer review. Future changes to reports noting the appearance of impairment and the mitigating steps such as the peer review and changes to the Financial Oversight Committee charter will be required.

➤ Opportunities for Continuous Improvement

- ✓ Standard 1311 – Internal Assessment and Standard 1312 – External Assessment – The first Internal Assessment occurred in 2017 and the second External Assessment (since 2003) occurred in 2018. Recommend the continuation of annual Internal Assessments and continuation of External Assessments based on the nature of the engagements performed.
- ✓ Standard 1320 – Reporting on the Quality Assurance and Improvement Program – The last External Assessment occurred in 2003. No evidence could be located that External Assessment was discussed with the Board of Supervisors, Financial Oversight Committee or with Senior Management. Recommend ensuring current External Assessment is presented to Senior Management and the governing bodies in accordance with the *Standards*.
- ✓ Standard 2060 – Reporting to Senior Management and the Board – Independence is documented within the work papers during an engagement; however, the minutes of the Financial Oversight Committee do not demonstrate the discussion on independence nor does the annual Business Plan include a statement confirming the status of independence of the Internal Audit Activity.
- ✓ Standard 2330.A2 – Documenting Information – The current record retention and file management policy was adopted by the Board of Supervisors in 1996. Code sections and retention requirements have changed since 1996 and the provision approved by the Board should be reviewed and updated.
- ✓ Standard 2420 – Quality of Communication – Based on surveys and interviews, report readers conveyed a need to have written communications be more concise and to highlight key concerns.

Opinion as to Conformance with the *Standards*

It is our overall opinion that the internal audit activity generally conforms to the *Standards* and Code of Ethics. This means that policies, procedures and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity and proficiency of the internal audit activity. However, the quality assessment team identified opportunities for further improvement, details of which are provided in this report. A detail list of conformance with individual standards and the Code of Ethics is shown in Appendix A. Appendix B provides a detail definition of the Ratings.

Key Facts and Background

The Internal Audit Activity was reestablished in September 2014 under the leadership of the current Chief Audit Executive. The Chief Audit Executive reports administratively to the Chief Financial Officer, a Board appointed position. The Chief Audit Executive was tasked with ensuring that the Division was in compliance with the *Standards*. This entailed developing and issuing policies and procedures for the Internal Audit Division. Once the policy and procedures were established, the first Internal Assessment occurred in 2017.

As part of the preparation for the quality assessment, the Yolo County internal audit activity prepared a document with detailed information of the policy, procedures and practices pertaining to their operations. Upon receipt of the documentation, the Napa County Internal Audit Section requested key officials and internal audit staff to complete surveys. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the Yolo County internal audit activity.

Before commencement of the onsite work by the Napa County Internal Audit Section on March 13, 2018, the Napa County team leader contacted Yolo County Internal Audit Activity to gather additional background information, selected executives for interviews prior to the onsite fieldwork, and finalized planning and administrative arrangements for the quality assessment. The internal audit activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the internal audit activity's work papers and reports were also reviewed.

We appreciate the courteous attitude and the cooperation we received from the internal audit staff; and the county executives and managers who participated in the peer review process. The feedback from the surveys and the interviews provided valuable information regarding the operations of the internal audit activity and its relationship with management.

Objectives, Scope and Methodology

Objectives

- The principle objective of the quality assessment was to assess Internal Audit Division's (Division) conformance with the *Standards* and the Code of Ethics.
- Napa County also evaluated Division's effectiveness in:
 - Carrying out its mission as set forth in the internal audit charter and expressed in the expectations of Yolo County's management;
 - Identified successful internal audit practices demonstrated by the Internal Audit Division; and
 - Identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.

Scope

- The scope of the quality assessment included the Division of Internal Audits, as set forth in the internal audit charter and approved by the BOS, which defines the purpose, authority, and responsibility of the Division.
- The quality assessment was concluded on May 3, 2018, and provides senior management, the Financial Oversight Committee and the Board of Supervisors with information about the Division as of that date.
- The *Standards* and the Code of Ethics adopted and effective as of January 1, 2018, were the basis for the quality assessment.

Methodology

- At the request of Napa County, the Division compiled and prepared information in advance of the on-site portion of the quality assessment. The Division provided requested information in a detailed planning document checklist and answered questions related to internal audit governance, staff, management, and process.
- The Division identified key stakeholders (Internal Audits staff, senior management, the board, and the external auditors) and sent surveys to each individual identified. The results were tabulated by Napa County in order to maintain confidentiality of the responses. Tabulated survey results were shared with Yolo County Chief Audit Executive subsequent to the on-site portion of the assessment.

Objectives, Scope and Methodology (Continued)

Methodology (Continued)

- Based on the results of the surveys completed by key stakeholders, interviews were scheduled during the on-site portion of the review.
- To accomplish the objectives, Napa County:
 - ✓ Reviewed information prepared by the Internal Audit Division at the Division's request;
 - ✓ Conducted surveys and interviews with selected key stakeholders, including a Financial Oversight Committee member, County Executive Officer, external auditors, and Internal Audit management and staff;
 - ✓ Reviewed a sample of audit projects and associated work papers and reports;
 - ✓ Reviewed survey data received from Yolo County stakeholders and Internal Audit management and staff; and
 - ✓ Prepared diagnostic tools consistent with the methodology established for a quality assessment in the *Quality Assessment Manual for the Internal Audit Activity*.

Detail Observations and Recommendations

The Internal Audit environment where the external assessment was performed is well structured and progressive where the *Standards* are understood; the Code of Ethics is being applied; and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation already in place. Observations are divided into three categories, see Appendix C for a description of each category:

Part I—Successful Internal Audit Practices

Standard 1000 – Purpose, Authority, and Responsibility – The Internal Audit Charter is comprehensive and contains the mandatory elements of the *Institute of Internal Auditors International Professional Practices Framework*.

Standard 1200 – Proficiency and Due Professional Care – The Internal Audit staff possess the knowledge, skills and other competencies required to effectively carry out their professional responsibilities.

Standard 2000 – Managing the Internal Audit Activity – The Internal Audit Activity strives to:

- ✓ Achieve the purpose and responsibilities included in the Audit Charter;
- ✓ Conform to the *Standards*;
- ✓ Have individual team members conform with the Code of Ethics and the Standards; and
- ✓ Consider trends and emerging issues that could impact the organization.

Standard 2100 – Nature of Work – The Internal Audit Activity evaluates and contributes to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced due to the auditors being proactive and they offer new insights and consider future impact of proposed operational changes.

Standard 2200 – Engagement Planning – The Internal Auditors develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. The plan considers the organization's strategies, objectives, and risks relevant to the engagement. Each engagement includes a risk brainstorming meeting with Internal Audit staff.

Standard 2300 – Performing the Engagement – The Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives. Samples are selected based on the evaluation of risk. Results are evaluated to determine the extent to which information and controls can be relied.

Standard 2500 – Monitoring Progress – The Chief Audit Executive has established and maintains a system to monitor the implementation of corrective actions and communicates the status of the corrective actions to the Board of Supervisors through the Financial Oversight Committee and to management.

Part I—Successful Internal Audit Practices (Continued)

Code of Ethics – The Internal Auditors are expected through the adopted Code and through management’s leadership to apply and uphold the following principles:

- ✓ Integrity
- ✓ Objectivity
- ✓ Confidentiality
- ✓ Competency

Part II—Gaps to Conformance with the *Standards*

Standard 1110 – Organizational Independence

Gap to Conformance - Chief Audit Executive reports administratively to the Board appointed Chief Financial Officer. Though the current holders of the positions are able to carry out their responsibilities in an unbiased manner, this may not be the case for future employees. The Financial Oversight Board’s Charter dated September 22, 2014, is silent on specific tasks related to the Internal Audit Division. We recommend the following changes to the Committee’s charter:

- ✓ Review and recommend changes of the Internal Audit Charter to the Board of Supervisors
- ✓ Approving or at a minimum providing input in decisions regarding the Chief Audit Executive, including but not limited to:
 - Appointment
 - Remuneration
 - Removal

Internal Audit Response and Action Plan - The Chief Audit Executive concurs. During the February Financial Oversight Committee meeting members requested additional clarification regarding their role and objectives as it relates to the Division of Internal Audit. On May 8, 2018, the Financial Oversight Committee’s charter was revised and includes the recommendation noted above.

Part II—Gaps to Conformance with the *Standards* (Continued)

Standard 1130 – Impairment to Independence or Objectivity

Gap to Conformance - Potential appearance of impairment due to administratively reporting to an appointed Chief Financial Officer was evaluated and confirmed through the results of the surveys received as part of the external peer review. The nature of the impairments must be disclosed to the appropriate parties. We recommend issued reports disclose the appearance of impairment and the mitigating steps such as the documentation of independence in the work papers, the peer review and changes to the Financial Oversight Committee charter. The following is suggested language for the reports:

The Division of Internal Audits reports administratively to the Department of Finance. The Department of Finance is mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair GAGAS independence standards. Specifically, “Auditors should not audit their own work or provide nonaudit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.”

Although the Department of Finance is obligated to maintain the accounts of departments, districts, or funds that are contained within the County treasury, we believe that the following safeguards and division of responsibilities exist that would enable the reader of this report to rely on the information contained herein:

- ✓ *The Internal Audit Division is not responsible for the input or reconciliation of any financial transactions.*
- ✓ *County policy requires the Board of Supervisors approval for material transactions.*
- ✓ *The Internal Audit Division is reportable to the Board of Supervisors or their Financial Oversight Committee.*
- ✓ *Internal Audits are subject to an independent external peer review every three years.*
- ✓ *Internal Audits completed a peer review for the three year period ending June 30, 2017 and received the highest opinion, “Generally Conforms”.*

Internal Audit Response and Action Plan - The Chief Audit Executive concurs. Starting with the August 2018 Financial Oversight Committee meeting, the Chief Audit Executive will discuss, on an annual basis, conformation of independence. The topic will be placed on the agenda and documented in the minutes. Additionally, for transparency the Chief Audit Executive will include a short paragraph in each engagement report issued, language addressing the Division’s consideration of independence.

Part III—Opportunities for Continuous Improvement

Standard 1311 – Internal Assessment

Area of Improvement – The first Internal Assessment occurred in 2017 subsequent to the development and issuance of the Internal Audit Policy and Procedures. Internal assessments must include:

- ✓ 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.

Ongoing monitoring is transpiring with the use of client surveys being issued after each engagement. Periodic self-assessments are expected to occur annually.

We recommend the continuation of engagement surveys and periodic Self-Assessments.

Internal Audit Response and Action Plan – The Chief Audit Executive concurs. The internal self-assessment is scheduled to be performed annually.

Standard 1312 – External Assessment

Area of Improvement – This report represents the second External Assessment since 2003. The prior assessment was performed by a qualified independent assessor. In accordance with the *Standard*, external assessments must occur every five years. However, subsequent to the 2003 assessment the Division was without a Chief Audit Executive until 2014. During the interim period the majority of the tasks assigned to the remaining internal audit staff were special projects or consulting agreements. Currently, the majority of the engagements are performed in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and require a peer review every three years.

We recommend the continuation of External Assessments based on the nature of the engagements performed.

Internal Audit Response and Action Plan – The Chief Audit Executive concurs. An external peer review will be performed timely every three years as required by the AICPA Professional Standards.

Part III—Opportunities for Continuous Improvement (Continued)

Standard 1320 – Reporting on the Quality Assurance and Improvement Program

Area of Improvement – The last External Assessment occurred in 2003. No evidence could be located that 2003 External Assessment was discussed with the Board of Supervisors, Financial Oversight Committee or with Senior Management. The 2017 Internal Assessment was presented to the Financial Oversight Committee in October 2017. In accordance with the *Standard* the Chief Audit Executive must communicate the results of the internal and external assessments to senior management and the Board. Disclosure should include:

- ✓ The scope and frequency of both the internal and external assessment
- ✓ The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest
- ✓ Conclusions of assessor
- ✓ Corrective action plans

We recommend that External Assessments are presented to the Board of Supervisors, Financial Oversight Committee and Senior Management.

Internal Audit Response and Action Plan - The Chief Audit Executive concurs. Starting with this external report, the Chief Audit Executive will present the final report to Chief Financial Officer, County Administrator Officer, Financial Oversight Committee, and the Board of Supervisor. The internal assessment will continue to be submitted to the Chief Financial Officer, County Administrator Officer, and the Financial Oversight Committee on an annual basis. Further, once the Division's website is fully developed, the reports will be posted for public review.

Standard 2060 – Reporting to Senior Management and the Board

Area of Improvement – In accordance with the *Standard*, the frequency and content of reporting to Senior Management and the Board are determined collectively; however, communications must include

- ✓ The audit charter
- ✓ Independence of the internal audit activity
- ✓ The audit plan and progress against the plan

The audit charter and audit plan, known as a business plan in Yolo County, were submitted to the Financial Oversight Committee in accordance with the *Standards*. However, minutes of the Committee do not demonstrate the discussion on independence nor does the annual Business Plan include a statement confirming the status of independence of the Internal Audit Division.

Part III—Opportunities for Continuous Improvement (Continued)

Standard 2060 – Reporting to Senior Management and the Board (Continued)

Even though the status of independence is documented within the work papers of the engagements, we recommend that the Business Plan includes a statement summarizing the status of the Internal Audit Division's independence.

Internal Audit Response and Action Plan - The Chief Audit Executive concurs. Starting with Fiscal Year 2018/19 Business Plan the Chief Audit Executive will address the consideration and confirmation of the Division's independence.

Standard 2330.A2 – Documenting Information

Area of Improvement - The current record retention and file management policy was adopted by the Board of Supervisors in 1996. Code sections and retention requirements have changed since 1996.

We recommend the provision approved by the Board be reviewed and updated to address both paper and electronic files; and updated to reflect current retention requirements set by Federal and State regulations and code. An example of a Resolution and retention tables adopted by Napa County have been provided to Yolo County.

Internal Audit Response and Action Plan - The Chief Audit Executive concurs. The Department of Financial Services is currently working on an updated record retention policy that will be submitted for board approval.

Standard 2420 – Quality of Communication

Area of Improvement – The Standard requires communications to be accurate, objective, clear, concise, constructive, complete, and timely. Based on surveys and interviews, report readers conveyed a need to have written communications be clear and concise and to highlight key concerns. The two areas of concern are interpreted as follows by Institute of Internal Auditors:

- *Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information.*
- *Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness.*

We recommend using an Executive Summary to summarize key areas of risk and grouping like items together. Keep the length of the Executive Summary to approximately four pages using key word recognition such as “**Fiduciary Responsibilities**”. After the key word, summarize the finding in two to three sentences with a page reference where the detail can be found.

Part III—Opportunities for Continuous Improvement (Continued)

Standard 2420 – Quality of Communication (Continued)

Since reports for an Agreed-Upon Procedure require reporting in the same order as the procedures set forth in the engagement letter, we recommend procedures are drafted in a manner to include like items together such as Policy, Safeguarding, Accounting, etc. When the procedures require amendment, the new steps should be inserted within the applicable section and the revised procedures would then be attached in their entirety to an amended engagement letter. If graphs or pictures can be used, do so, as it will grab the reader's attention and assist them in their understanding of the topic.

When a report exceeds ten or more pages consider adding an index or table of contents to assist the reader. The index or table of contents can be grouped by like items with a listing of the detail underneath.

Determine if there is another individual in the organization that can read the report to provide feedback. The person should be verifying that the public, the ultimate audience, understands what has transpired.

Internal Audit Response and Action Plan – The Chief Audit Executive concurs. Though some reports require greater detail due to the severity and materiality of the matter, staff are working to better organize reports by indexing and working towards developing executive summaries that are more user friendly, such as dashboard type formats.

Part IV - Status of 2003 External Assessment Recommendations

Part I – Matter for Consideration by Yolo County Management

Complete the Annual Risk Assessment Process

Recommendation: The Yolo County and IA [Internal Audit] Division management should place high priority upon the implementation and development of the annual countywide risk assessment process, and henceforth ensure this process is performed on an annual basis.

Status: In Progress.

Part II – Issues Specific to the Internal Audit Activity

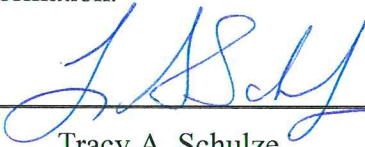
Insufficient Documentation to Support the Continuing Professional Development of Internal Audit Staff.

Recommendation: The IA [Internal Audit] Division should implement procedures that will allow it to sufficiently support its assertion and/or compliance with *Standards* and Audit Charter and Policy Statement as it pertains to Continuing Professional Education.

Status: Completed.

Conclusion

Thank you for the opportunity to be of service to Yolo County Internal Audit Division. We will be pleased to respond to further questions concerning this report and furnish any desired information.



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Auditor-Controller

7/17/18

Date

Team Members:



Karen Dotson, CPA
Napa County Audit Manager

7/17/18

Date



Himmat Bains
Napa County Internal Audit

7/17/18

Date

Appendix A Evaluation Summary

	GC ¹	PC ²	DNC ³
Overall Evaluation	✓		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence		X	
1111	Direct Interaction with the Board	✓		
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓		
1120	Individual Objectivity	✓		
1130	Impairment to Independence or Objectivity		X	

¹ GC – General Conforms, defined at Appendix B

² PC – Partially Conforms, defined at Appendix B

³ DNC – Does Not Conform, defined at Appendix B

		GC	PC	DNC
1200	Proficiency and Due Professional Care	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Program	✓		
1310	Requirements of the Quality Assurance and Improvement Program	✓		
1311	Internal Assessments	✓		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination and Reliance	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	✓		
2100	Nature of Work	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		

		GC	PC	DNC
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		

		GC	PC	DNC
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	X		
2421	Errors and Omissions	✓		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		

Code of Ethics	GC	PC	DNC
Code of Ethics	✓		

X = Identified areas of improvement. See detailed descriptions commencing at Page 8.

Appendix B

Rating Definitions

The Institute of Internal Auditor's *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when opining on the internal audit activity: "Generally Conforms," "Partially Conforms," and "Does Not Conform."

GC – "Generally Conforms" means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – "Partially Conforms" means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the 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.

DNC – "Does Not Conform" means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly 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 C

Observation Categories

Successful Internal Audit Practices – Areas where Internal Audit Division (Division) is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these items is intended to provide Internal Audit stakeholders with a view by Napa County on things Division is doing in a leading practice manner when compared to other internal audit activities.

Gaps to Conformance with the *Standards* or the Code of Ethics – Areas identified during the quality assessment where the assessment team has concluded that Internal Audit is operating in a manner that falls short of achieving one or more major objectives, with the *Standards* or the Code of Ethics that results in an opinion for an individual standard of “partially conforms” or “does not conform.” These items will include recommendations offered by the external assessment team for actions to be implemented for achieving “generally in conformance” with the standard and will include the Division’s response and an action plan to address the gap.

Opportunities for Continuous Improvement – Observations of opportunities to enhance the efficiency or effectiveness of Internal Audit Division’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of Ethics. They may also be operational ideas based on the experiences of the external assessment team from working with other internal audit activities. A management response and an action plan to address each opportunity for continuous improvement noted are normally included.