

Coast Community College District
BOARD POLICY
Chapter 4
Business Operations

**BP 6401 Coast Community College District
Internal Audit Department Manual of Policies**

INTERNAL AUDIT DEPARTMENT CHARTER

Introduction

Internal auditing is an independent appraisal activity established within the organization to examine and evaluate its activities. The objectives of internal auditing are to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at reasonable cost.

Role of the Internal Audit Department

The internal audit department is established by the Board of Trustees, and its responsibilities are defined by the Chancellor. The director of internal auditing will report administratively to the Vice Chancellor of Business Affairs and functionally to the Chancellor.

Authorization and Responsibilities

Authorization is granted for full and complete access to any of the organization's records (either manual or electronic), physical properties, and personnel relevant to a review. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them.

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not develop and install procedures, prepare records, engage in activities which would normally be reviewed by internal auditors.

Recommendations on standards of control to apply to a specific activity may be included in the written report of audit findings and opinions which is given to operating management unit for review and implementation.

Definition of Audit Scope

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

It includes:

- Reviewing the systems established to ensure compliance with those policies,

plan, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the organization is in compliance.

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

Reporting Accountabilities

A written report will be prepared and issued by the director of internal auditing following the conclusion of each audit and will be distributed as appropriate. A copy of the full report will be forwarded to the chancellor's office. The manager of the activity or department receiving the internal audit report will respond within 30 days and forward a copy to Internal Audit Department. This response will indicate what actions were taken in regard to the specific findings and recommendations in the internal audit report. A timetable for the anticipated completion of these actions will be included.

THE INSTITUTE OF INTERNAL AUDITORS, INC. - CODE OF ETHICS

Introduction

It is recommended that the Board of Trustees of Coast Community College District adopt the Institute of Internal Auditors Inc., code of ethics as the standards for the Internal Audit Department. The resolution and code of ethics are as follows:

WHEREAS the members of the Institute of Internal Auditors, Inc., represent the profession of internal auditing, and

WHEREAS managements rely on the profession of internal auditing to assist in the fulfillment of their management stewardship, and

WHEREAS said members must maintain high standards of conduct, honor and character in order to carry on proper and meaningful internal auditing practice:

THEREFORE BE IT RESOLVED that a Code of Ethics be now set forth, outlining the standards of professional behavior for the guidance of each member of The Institute of Internal Auditors, Inc.

Interpretation of Principles

The provisions of this Code of Ethics cover basic principles in the various disciplines of internal auditing practice. Members shall realize that individual judgment is required in the application of

these principles. They have a responsibility to conduct themselves so that their good faith and integrity should not be open to question. While having due regard for the limit of their technical skills, they will promote the highest possible internal auditing standards to the end of advancing the interest of their organization.

Articles:

1. Members shall have an obligation to exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
2. Members, in holding the trust of their employers, shall exhibit loyalty in all matters pertaining to the affairs of the employer or to whomever they may be rendering a service. However, members shall not knowingly be a party to any illegal or improper activity.
3. Members shall refrain from entering into any activity which may be in conflict with the interest of their employers or which would prejudice their ability to carry out objectively their duties and responsibilities.
4. Members shall not accept a fee or gift from an employee, a client, a customer, or a business associate of their employer without the knowledge and consent of their senior management.
5. Members shall be prudent in the use of information acquired in the course of their duties. They shall not use confidential information for any personal gain nor in a manner which would be detrimental to the welfare of their employer.
6. Members in expressing an opinion, shall use all reasonable care to obtain sufficient factual evidence to warrant such expression. In their reporting, members shall reveal such material facts known to them, which, if not revealed, could either distort the report of the results of operation under review or concealed unlawful practice.
7. Members shall continually strive for improvement in the proficiency and effectiveness of their service.
8. Members shall abide by the bylaws and uphold the objectives of The Institute of Internal Auditors, Inc. In the practice of their profession, they shall be ever mindful of their obligation to maintain the high standards of competence, morality, and dignity which The Institute of Internal Auditors, Inc., and its members have established.

STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

Introduction

It is recommended that the Board of Trustees of Coast Community College District adopt the Institute of Internal Auditors Inc., standards for the professional practice of internal auditing.

In setting these *Standards*, the following developments were considered by the Institute of Internal Auditors Inc.:

1. Boards of Directors are being held increasingly accountable for the adequacy and effectiveness of their organizations' systems of internal control and quality of performance.
2. Members of management are demonstrating increased acceptance of internal auditing as a means of supplying objective analyses, appraisals, recommendations, counsel, and information on the organization's controls and performance.
3. External auditors are using the results of internal audits to complement their own work where the internal auditors have provided suitable evidence of independence and adequate, professional audit work.

In the light of such developments, the purposes of these *Standards* are to:

1. Impart an understanding of the role and responsibilities of internal auditing to all levels of management, boards of directors, public bodies, external auditors, and related professional organizations.
2. Establish the basis for the guidance and measurement of internal auditing performance.
3. Improve the practice of internal auditing.

The *Standards* differentiate among the varied responsibilities of the organization, the internal auditing department, the director of internal auditing, and auditors.

The five general *Standards* are expressed in italicized statements in upper case. Following each of these general *Standards* are specific standards expressed in italicized statements in lower case. Accompanying each specific standard are guidelines describing suitable means of meeting that standard. The *Standards* encompass:

1. The independence of the internal auditing department from the activities audited and the objectivity of internal auditors.
2. The proficiency of internal auditors and the professional care they should exercise.
3. The scope of internal auditing work.
4. The performance of internal auditing assignments.
5. The management of the internal auditing department.

The Standards and the accompanying guidelines employ three terms which have been given specific meanings. These are as follows:

The term board includes boards of directors, audit committees of such boards, heads of agencies or legislative bodies to whom internal auditors report, boards of governors or trustees of nonprofit organizations, and any other designated governing bodies of organizations.

The terms director of internal auditing and director identify the top position in an internal auditing department.

The term internal auditing department includes any unit or activity within an organization which performs internal auditing functions.

100 INDEPENDENCE

Internal auditors should be independent of the activities they audit.

- A. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational status and objectivity.

110 ORGANIZATIONAL STATUS

The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities.

- A. Internal auditors should have the support of management and of the board of directors so that they can gain the cooperation of auditees and perform their work free from interference.
 - 1. The director of the internal auditing department should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.
 - 2. The director should have direct communication with the board. Regular communication with the board helps assure independence and provides a means for the board and the director to keep each other informed on matters of mutual interest.
 - 3. Independence is enhanced when the board concurs in the appointment or removal of the director of the internal auditing department.
 - 4. The purpose, authority, and responsibility of the internal auditing department should be defined in a formal written document (charter). The director should seek approval of the charter by management as well as acceptance by the board. The charter should (a) establish the department's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of audits; and (c) define the scope of internal auditing activities.
 - 5. The director of internal auditing should submit annually to management for approval and to the board for its information a summary of the department's audit work schedule, staffing plan, and financial budget. The director should also submit all significant interim changes for approval and information. Audit work schedules, staffing plans, and financial budgets should inform management and

the board of the scope of internal auditing work and of any limitations placed on that scope.

6. The director of internal auditing should submit activity reports to management and to the board annually or more frequently as necessary. Activity reports should highlight significant audit findings and recommendations and should inform management and the board of any significant deviations from approved audit work schedules, staffing plans, and financial budgets, and the reasons for them.

120 OBJECTIVITY

Internal auditors should be objective in performing audits.

- A. Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not to subordinate their judgment on audit matters to that of others.
- B. Objectivity requires internal auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal auditors are not to be placed in situations in which they feel unable to make objective professional judgments.
 1. Staff assignments should be made so that potential and actual conflicts of interest and bias are avoided. The director should periodically obtain from the audit staff information concerning potential conflicts of interest and bias.
 2. Internal auditors should report to the director any situations in which a conflict of interest or bias is present or may reasonably be inferred. The director should then reassign such auditors.
 3. Staff assignments of internal auditors should be rotated periodically whenever it is practicable to do so.
 4. Internal auditors should not assume operating responsibilities. But if on occasion management directs internal auditors to perform nonaudit work, it should be understood that they are not functioning as internal auditors. Moreover, objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility. This impairment should be considered when reporting audit results.
 5. Persons transferred to or temporarily engaged by the internal auditing department should not be assigned to audit those activities they previously performed until a reasonable period of time has elapsed. Such assignments are presumed to impair objectivity and should be considered when supervising the audit work and reporting audit results.
 6. The results of internal audit work should be reviewed before the related audit report is released to provide reasonable assurance that the work was performed objectively.
- C. The internal auditor's objectivity is not adversely affected when the auditor recommends

standards of control for systems or reviews procedures before they are implemented. Designing, installing, and operating systems are not audit functions. Also, the drafting of procedures for systems is not an audit function. Performing such activities is presumed to impair audit objectivity.

200 PROFESSIONAL PROFICIENCY

Internal audits should be performed with proficiency and due professional care.

- A. Professional proficiency is the responsibility of the internal auditing department and each internal auditor. The department should assign to each audit those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly.

The Internal Auditing Department

210 Staffing

The internal auditing department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

- A. The director of internal auditing should establish suitable criteria of education and experience for filling internal auditing positions, giving due consideration to scope of work and level of responsibility.
- B. Reasonable assurance should be obtained as to each prospective auditor's qualifications and proficiency.

220 Knowledge, Skills, and Disciplines

The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

- A. The internal auditing staff should collectively possess the knowledge and skills essential to the practice of the profession within the organization. These attributes include proficiency in applying internal auditing standards, procedures, and techniques.
- B. The internal auditing department should have employees or use consultants who are qualified in such disciplines as accounting, economics, finance, statistics, electronic data processing, engineering, taxation, and law as needed to meet audit responsibilities. Each member of the department, however, need not be qualified in all of these disciplines.

230 Supervision

The internal auditing department should provide assurance that internal audits are properly supervised.

- A. The director of internal auditing is responsible for providing appropriate audit supervision. Supervision is a continuous process, beginning with planning and ending with the conclusion of the audit assignment.

- B. Supervision includes:
1. Providing suitable instructions to subordinates at the outset of the audit and approving the audit program.
 2. Seeing that the approved audit program is carried out unless deviations are both justified and authorized.
 3. Determining that audit working papers adequately support the audit findings, conclusions, and reports.
 4. Making sure that audit reports are accurate, objective, clear, concise, constructive, and timely.
 5. Determining that audit objectives are being met.
- C. Appropriate evidence of supervision should be documented and retained.
- D. The extent of supervision required will depend on the proficiency of the internal auditors and the difficulty of the audit assignment.
- E. All internal auditing assignments, whether performed by or for the internal auditing department, remain the responsibility of its director.

The Internal Auditor

240 Compliance with Standards of Conduct

Internal auditors should comply with professional standards of conduct.

- A. The Code of Ethics of The Institute of Internal Auditors sets forth standards of conduct and provides a basis for enforcement among its members. The Code calls for high standards of honesty, objectivity, diligence, and loyalty to which internal auditors should conform.

250 Knowledge, Skills, and Disciplines

Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

- A. Each internal auditor should possess certain knowledge and skills as follows:
1. Proficiency in applying internal auditing standards, procedures, and techniques is required in performing internal audits. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance. .
 2. Proficiency in accounting principles and techniques is required of auditors who work extensively with financial records and reports.

3. An understanding of management principles is required to recognize and evaluate the materiality and significance of deviations from good business practice. An understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to be able to carry out the research necessary to arrive at reasonable solutions.
4. An appreciation is required of the fundamentals of such subjects as accounting, economics, commercial law, taxation, finance, quantitative methods, and computerized information systems. An appreciation means the ability to recognize the existence of problems or potential problems and to determine the further research to be undertaken or the assistance to be obtained.

260 Human Relations and Communications

Internal auditors should be skilled in dealing with people and in communicating effectively.

- A. Internal auditors should understand human relations and maintain satisfactory relationships with auditees.
- B. Internal auditors should be skilled in oral and written communications so that they can clearly and effectively convey such matters as audit objectives, evaluations, conclusions, and recommendations.

270 Continuing Education

Internal auditors should maintain their technical competence through continuing education.

- A. Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies; attendance at conferences, seminars, college courses, and in-house training programs; and participation in research projects.

280 Due Professional Care

Internal auditors should exercise due professional care in performing internal audits.

- A. Due professional care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Professional care should, therefore, be appropriate to the complexities of the audit being performed. In exercising due professional care, internal auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They should also be alert to those conditions and activities where irregularities are most likely to occur. In addition, they should identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices.
- B. Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations and verifications to a reasonable extent, but does not require detailed audits of all transactions. Accordingly,

the internal auditor cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance should be considered whenever the internal auditor undertakes an internal auditing assignment.

- C. When an internal auditor suspects wrongdoing, the appropriate authorities within the organization should be informed. The internal auditor may recommend whatever investigation is considered necessary in the circumstances. Thereafter, the auditor should follow up to see that the internal auditing department's responsibilities have been met.
- D. Exercising due professional care means using reasonable audit skill and judgment in performing the audit. To this end, the internal auditor should consider:
 - 1. The extent of audit work needed to achieve audit objectives.
 - 2. The relative materiality or significance of matters to which audit procedures are applied.
 - 3. The adequacy and effectiveness of internal controls.
 - 4. The cost of auditing in relation to potential benefits.
- E. Due professional care includes evaluating established operating standards and determining whether those standards are acceptable and are being met. When such standards are vague, authoritative interpretations should be sought. If internal auditors are required to interpret or select operating standards, they should seek agreement with auditees as to the standards needed to measure operating performance.

300 SCOPE OF WORK

The scope of the internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities

- A. The scope of internal auditing work, as specified in this standard, encompasses what audit work should be performed. It is recognized, however, that management and the board of directors provide general direction as to the scope of work and the activities to be audited.
- B. The purpose of the review for adequacy of the system of internal control is to ascertain whether the system established provides reasonable assurance that the organization's objectives and goals will be met efficiently and economically.
- C. The purpose of the review for effectiveness of the system of internal control is to ascertain whether the system is functioning as intended.
- D. The purpose of the review for quality of performance is to ascertain whether the organization's objectives and goals have been achieved.
- E. The primary objectives of internal control are to ensure:

1. The reliability and integrity of information.
2. Compliance with policies, plans, procedures, laws, and regulations.
3. The safeguarding of assets.
4. The economical and efficient use of resources.
5. The accomplishment of established objectives and goals for operations or programs.

310 Reliability and Integrity of Information

Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

- A. Information systems provide data for decision making, control, and compliance with external requirements. Therefore, internal auditors should examine information systems and, as appropriate, ascertain whether:
 1. Financial and operating records and reports contain accurate, reliable, timely, complete, and useful information.
 2. Controls over record keeping and reporting are adequate and effective.

320 Compliance with Policies, Plans, Procedures, Laws and Regulations

Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.

- A. Management is responsible for establishing the systems designed to ensure compliance with such requirements as policies, plans, procedures, and applicable laws and regulations. Internal auditors are responsible for determining whether the systems are adequate and effective and whether the activities audited are complying with the appropriate requirements.

330 Safeguarding of Assets

Internal auditors should review the means of safe guarding assets and, as appropriate, verify the existence of such assets.

- A. Internal auditors should review the means used to safeguard assets from various types of losses such as those resulting from theft, fire, improper or illegal activities, and exposure to the elements.
- B. Internal auditors, when verifying the existence of assets, should use appropriate audit procedures.

340 Economical and Efficient Use of Resources

Internal auditors should appraise the economy and efficiency with which resources are employed.

- A. Management is responsible for setting operating standards to measure an activity's economical and efficient use of resources. Internal auditors are responsible for determining whether:
 - 1. Operating standards have been established for measuring economy and efficiency.
 - 2. Established operating standards are understood and are being met.
 - 3. Deviations from operating standards are identified, analyzed, and communicated to those responsible for corrective action.
 - 4. Corrective action has been taken.
- B. Audits related to the economical and efficient use of resources should identify such conditions as:
 - 1. Underutilized facilities.
 - 2. Nonproductive work.
 - 3. Procedures which are not cost justified.
 - 4. Overstaffing or understaffing.

350 Accomplishment of Established Objectives and Goals for Operations or Programs

Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

- A. Management is responsible for establishing operating or program objectives and goals, developing and implementing control procedures, accomplishing desired operating or program results. Internal auditors should ascertain whether such objectives and goals conform with those of the organization and whether they are being met.
- B. Internal auditors can provide assistance to managers who are developing objectives, goals, and systems by determining whether the underlying assumptions are appropriate; whether accurate, current, and relevant information is being used; and whether suitable controls have been incorporated into the operations or programs.

400 PERFORMANCE OF AUDIT WORK

Audit work should include planning the audit, examining and evaluating information, communicating results, and following up.

- A. The internal auditor is responsible for planning and conducting the audit assignment, subject to supervisory review and approval.

410 Planning the Audit

Internal auditors should plan each audit.

- A. Planning should be documented and should include:
1. Establishing audit objectives and scope of work.
 2. Obtaining background information about the activities to be audited.
 3. Determining the resources necessary to perform the audit.
 4. Communicating with all who need to know about the audit.
 5. Performing, as appropriate, an on-site survey to become familiar with the activities and controls to be audited, to identify areas for audit emphasis, and to invite auditee comments and suggestions.
 6. Writing the audit program.
 7. Determining how, when, and to whom audit results will be communicated.
 8. Obtaining approval of the audit work plan.

420 Examining and Evaluating Information

Internal auditors should collect, analyze, interpret, and document information to support audit results.

- A. The process of examining and evaluating information is as follows:
1. Information should be collected on all matters related to the audit objectives and scope of work.
 2. Information should be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations.

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor.

Competent information is reliable and the best attainable through the use of appropriate audit techniques.

Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit.

Useful information helps the organization meet its goals.
 3. Audit procedures, including the testing and sampling techniques employed, should be selected in advance, where practicable, and expanded or altered if circumstances warrant.

4. The process of collecting, analyzing, interpreting, and documenting information should be supervised to provide reasonable assurance that the auditor's objectivity is maintained and that goals are met.
5. Working papers that document the audit should be prepared by the auditor and reviewed by management of the internal auditing department. These papers should record the information obtained and the analyses made and should support the bases for the findings and recommendations to be reported.

430 Communicating Results

Internal auditors should report the results of their audit work.

1. A signed, written report should be issued after the audit examination is completed. Interim reports may be written or oral and may be transmitted formally or informally.
2. The internal auditor should discuss conclusions and recommendations at appropriate levels of management before issuing final written reports.
3. Reports should be objective, clear, concise, constructive, and timely.
4. Reports should present the purpose, scope, and results of the audit; and, where appropriate, reports should contain an expression of the auditor's opinion.
5. Reports may include recommendations for potential improvements and acknowledge satisfactory performance and corrective action.
6. The auditee's views about audit conclusions or recommendations may be included in the audit report.
7. The director of internal auditing or designee should review and approve the final audit report before issuance and should decide to whom the report will be distributed.

440 Following up

Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.

1. Internal auditing should determine that corrective action was taken and is achieving the desired results, or that management or the board has assumed the risk of not taking corrective action on reported findings.

500 MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT

The director of internal auditing should properly manage the internal auditing department.

- A. The director of internal auditing is responsible for properly managing the department so that:

1. Audit work fulfills the general purposes and responsibilities approved by management and accepted by the board.
2. Resources of the internal auditing department are efficiently and effectively employed.
3. Audit work conforms to the *Standards for the Professional Practice of Internal Auditing*.

510 Purpose, Authority, and Responsibility

The director of internal auditing should have a statement of purpose, authority, and responsibility for the internal auditing department.

- A. The director of internal auditing is responsible for seeking the approval of management and the acceptance by the board of a formal written document (charter) for the internal auditing department.

520 Planning

The director of internal auditing should establish plans to carry out responsibilities of the internal auditing department.

- A. These plans should be consistent with the internal auditing department's charter and with the goals of the organization.
- B. The planning process involves establishing.
 1. Goals
 2. Audit work schedules
 3. Staffing plans and financial budgets
 4. Activity reports
- C. The goals of the internal auditing department should be capable of being accomplished within specified operating plans and budgets and, to the extent possible, should be measurable. They should be accompanied by measurement criteria and targeted dates of accomplishment.
- D. Audit work schedules should include (a) what activities are to be audited; (b) when they will be audited; and (c) the estimated time required, taking into account the scope of the audit work planned and the nature and extent of audit work performed by others. Matters to be considered in establishing audit work schedule priorities should include (a) the date and results of the last audit; (b) financial exposure; (c) potential loss and risk; (d) requests by management; (e) major changes in operations, programs, systems, and controls; (f) opportunities to achieve operating benefits; and (g) changes to and capabilities of the audit staff. The work schedules should be sufficiently flexible to cover unanticipated demands on the internal auditing department.
- E. Staffing plans and financial budgets, including the number of auditors and the knowledge, skills, and disciplines required to perform their work, should be determined from audit

work schedules, administrative activities, education and training requirements, and audit research and development efforts.

- F. Activity reports should be submitted periodically to management and to the board. These reports should compare (a) performance with the department's goals and audit work schedules and (b) expenditures with financial budgets. They should explain the reasons for major variances and indicate any action taken or needed.

530 Policies and Procedures

The director of internal auditing should provide written policies and procedures to guide the audit staff.

- A. The form and content of written policies and procedures should be appropriate to the size and structure of the internal auditing department and the complexity of its work. Formal administrative and technical audit manuals may not be needed by all internal auditing departments. A small internal auditing department may be managed informally. Its audit staff may be directed and controlled through daily, close supervision and written memoranda. In a large internal auditing department, more formal and comprehensive policies and procedures are essential to guide the audit staff in the consistent compliance with the department's standards of performance.

540 Personnel Management and Development

The director of internal auditing should establish a program for selecting and developing the human resources of the internal auditing department.

- A. The program should provide for:
 - 1. Developing written job descriptions for each level of the audit staff.
 - 2. Selecting qualified and competent individuals.
 - 3. Training and providing continuing educational opportunities for each internal auditor.
 - 4. Appraising each internal auditor's performance at least annually.
 - 5. Providing counsel to internal auditors on their performance and professional development.

550 External Auditors

The director of internal auditing should coordinate internal and external audit efforts.

- A. The internal and external audit work should be coordinated to ensure adequate audit coverage and to minimize duplicate efforts.
- B. Coordination of audit effort involves:
 - 1. Periodic meetings to discuss matters of mutual interest.

2. Access to each other's audit programs and working papers.
 3. Exchange of audit reports and management letters.
 4. Common understanding of audit techniques, methods, and terminology.
- C. The existence of an internal auditor does not relieve the external auditor of his responsibility to conduct such audit work as is necessary to support the content of his report. Accordingly, before relying on conclusions reached by the internal auditor, the external auditor would need to consider the internal auditor's competence and objectivity and evaluate his work.

560 Quality Assurance

The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.

- A. The purpose of this program is to provide reasonable assurance that audit work conforms with these Standards, the internal auditing department's charter, and other applicable standards. A quality assurance program should include the following elements:
1. Supervision.
 2. Internal reviews.
 3. External reviews.
- B. Supervision of the work of the internal auditors should be carried out continually to assure conformance with internal auditing standards, departmental policies, and audit programs.
- C. Internal reviews should be performed periodically by members of the internal auditing staff to appraise the quality of the audit work performed. These reviews should be performed in the same manner as any other internal audit.
- D. External reviews of the internal auditing department should be performed to appraise the quality of the department's operations. These reviews should be performed by qualified persons who are independent of the organization and who do not have either a real or an apparent conflict of interest. Such reviews should be conducted at least once every three years. On completion of the review, a formal, written report should be issued. The report should express an opinion as to the department's compliance with the Standards for the Professional Practice of Internal Auditing and, as appropriate, should include recommendations for improvement.