

<b>OPERATIONAL PROCEDURE</b>	PROCEDURE No.  <b>270.00 QUALITY ASSURANCE AND IMPROVEMENT PROGRAM</b> <hr style="width: 80%; margin: auto;"/> <b>LAST REVISED: JULY 1, 2019</b>	<b>PAGE 1 OF 5</b>
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## QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)

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### DEFINITION –

In general, QAIP refers to planned and systematic processes that provide confidence in a product's suitability for its intended purpose and provide the development of metrics for continued monitoring and improvement. The specific 'product' related to the AD is the Internal Audit Activity/Function (IA).

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### PURPOSE –

- Provide reasonable assurance of conformance with:
  - Definition of Internal Auditing;
  - Code of Ethics;
  - Professional Standards;
  - Applicable legal and regulatory requirements; and
  - Internal audit activity efficiency and effectiveness;
- Emphasize a commitment to continuous improvement through the performance of high quality work; and
- Communicate accountability through the QAIP results to stakeholders of the City.

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### BACKGROUND –

Implementation of a QAIP is required by professional standards and is critical to the success of an IA activity and the contribution to the entity it serves. At minimum, standards address:

- Contents and purpose of the audit charter;
- Policies and procedures;
- Management of the IA activity;
- Quality of work performed;
- Audit/Engagement documentation;
- Risk-based planning for the audits/engagements to be performed annually (ERA) and for individual engagements;
- Collective and individual proficiency of internal auditors;
- Professional development; and
- Effectiveness of the final audit/engagement deliverable and other communications.

Periodic self-assessments, ongoing monitoring, and External Peer Reviews (EPRs) are required by professional standards as components of a QAIP.

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### APPROACH AND METHODOLOGY –

The approach and methodology of the QAIP is comprised of

- Development and implementation, and
- Review and maintenance.

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**DEVELOPMENT AND IMPLEMENTATION –**

In designing and implementing the QAIP, the AD considered:

- GAGAS and the IIA Standards and Practice Advisories;
- IIA and AD Codes of Ethics;
- The Audit Charter;
- Applicable legal and regulatory requirements;
- Policies and procedures
- Best practices of the profession;
- Leadership responsibility for quality within AD
- Documentation necessary to support compliance;
- Frequency of self-assessments and EPRs; and
- Continuous monitoring activities.

The QAIP is implemented by performing and documenting assessments and results of procedures that focus on providing assurance as described above. This becomes part of the documented activities of the function and the AD is specifically identified as such. For example, each engagement is reviewed as part of the requirements for adequate supervision and to ensure audit risk is reviewed and sufficient and appropriate evidence was gathered to support conclusions. The QA function provides an additional, independent review focused on the existence and documentation to support the key elements of the audit/engagement are supported and that the professional judgment was applied by staff that are proficient and competent. All engagements are reviewed by the QA function. QA reviews are performed by an auditor that did not participate in the audit/engagement being checked for quality. Metrics are to be created for evaluation of the success and consistency of the QA function and are embedded in the Performance Evaluation Goals and Evaluations of the QA Lead.

**REVIEW AND MAINTENANCE –**

QA process reviews are performed both internally and externally as follows:

**INTERNAL SELF-ASSESSMENT (ISA)**

Internal Self-Assessment is a layer of the review process that evaluates the effectiveness and efficiency of the QAIP and provides a benchmark to measure how the IA function is performing

The following is a list of activities that the QA function verifies are existing and occurring within the AD:

- CPE (proficiency and competency);
- Audit/Engagement evidence – (sufficient and appropriate);
- Quality Assurance Reviews (QARs) are embedded in the audit/engagement process (completeness, accuracy, reliability and validity);
- Review outsourced audit/engagement reports; and
- Assess the proficiency and competency of contractors.

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- The CA Developed and reviews Metrics on a regular basis as a measurement tool of the Audit Function’s success in achieving its’ mission and objectives. The results of these metrics are presented to the Division and other stakeholders within the organization.

**NOTE:** The ISA is a documented process that concludes on the AD’s conformance to the definition of Internal Auditing, the Code of Ethics, and the Standards (IIA and GAGAS). This is then used as a basis for external validation in the EPR process. The QA lead prepares an annual report to the CA outlining results of the QA process, identifies deficiencies and areas for improvement. The CA formally responds to this report with commitment to remediation.

The AD has implemented the following procedures to assure that quality is considered in conjunction with all processes carried out by the AD:

- Individual audits/engagements are reviewed for quality by AD management and other AD staff members. In addition to the planning, preliminary survey, fieldwork, and reporting phases of the audit/engagement process, the AD has added a Quality Assurance Review (QAR) phase that is documented in audit/engagement workpapers. The purpose of the QAR is to assure conformance with professional standards, applicable laws and regulations, the audit charter, and AD policies and procedures.
- Proficiency and competency of the AD and individual staff members are assessed to assure conformance with professional standards (See [Procedure No. 215.00](#)).
  - CPE credits/hours records are centrally maintained and monitored to assure conformance with GAGAS requirements and to plan future training.
  - Performance evaluations (using the HEAR process) are maintained for each employee, which provide for goals that are aligned with the Division and Department objectives.
- Contractual agreements and audit/engagement letters are prepared when outside firms have been selected for services as the result of the Request for Proposal (RFP) process, which are part of task orders or appropriations. These are approved by the CC. Each audit/engagement identifies the scope of work and a ceiling amount for fees paid and is charged against the task order/appropriation.
- The planning phase of outsourced audits/engagements is separated from the fieldwork and reporting phases to efficiently manage the project (cost and other resources).
- Just as the AD assesses its collective and individual proficiency and competency, AD management performs the same assessment of outside firms contracted for services. NOTE: This assessment is incorporated into the RFP process.
- Ongoing dialogue and status meetings with outside firms occur to inform AD management of outsourced engagement scope, activities, progress, concerns, findings, and recommendations.
- Outsourced audit/engagement project processes and reports are reviewed by AD management for quality and conformance with professional standards.

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- Follow-up audit procedures are performed by department, based on risk assessment, to ensure that corrective action was taken by clients/auditees to resolve findings and to determine whether corrective action was implemented.
- Proofreading of final draft reports prior to final approval and issuance.

**POST ENGAGEMENT EVALUATION PROCESS**

After each audit, the QAIP Professional will review documentation contained in the audit file and evaluate AD performance based on Yellow Book and Red Book quality control guidance obtained from the Association of Local Government Auditors (ALGA).

The evaluations performed for each fiscal year will be summarized in an annual report which is provided to the City Auditor. The City Auditor is to use information from the report to address systemic issues to improve the quality and effectiveness of the IA function.

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**EXTERNAL PEER REVIEW (EPR)**

GAGAS requires that EPRs be performed at least once every three years, while the IIA Standards require reviews at least once every five years. To conform to both GAGAS and IIA Standards, the AD has EPRs performed every three years. The EPR uses the AD's internal self-assessment and independently validates the assertion that the internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with (GAS or IIA).

The results of the EPR, necessary action plans, and their successful implementation will be reported to the City Controller and other pertinent stakeholders.

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**AUDIT DIVISION METRICS**

Metrics are feedback mechanisms designed and reviewed to assess performance and benchmark success against established goals and objectives. The Audit Division has developed a basic set of Metrics to help focus efforts toward the improvement of organizational behavior that is compliant with professional standards; drives efficiency and alignment with the City's objectives, and continues improvement striving to become a best-practice leader.

To this end the following metrics are being evaluated and monitored by the City Auditor and presented to the City Controller and City Council on an annual basis:

- Percentage of Audit Plan Completed
- Chargeable Hours per Audit/Project
- Average Cost per Audit/Project (by hour and project when considering direct and indirect hours separately)
- Cost Savings per Audit (considering direct and indirect hours separately)

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**POLICY AND PROCEDURES MANUAL UPDATE –**

The AD will review and update its P&P Manual on, at least, an annual basis *or as required and/or applicable based on changes to standards, internal practices and available resources.*

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**RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE**

**GAGAS**

INDEPENDENCE	3.17 – 3.108
PROFESSIONAL JUDGMENT	3.109 – 3.117
COMPETENCE	4.02 – 4.15
QUALITY CONTROL AND ASSURANCE AND PEER REVIEW	CHAPTER 5

**IIA STANDARDS**

- 1300 - QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)
- 1310 - REQUIREMENTS OF THE QAIP
- 1311 - INTERNAL ASSESSMENTS
- 1312 – EXTERNAL ASSESSMENTS
- 1320 - DEPORTING ON THE QAIP
- 1321 - USE OF “CONFORMS WITH THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING”
- 1322 – DISCLOSURE OF NONCONFORMANCE
- 2430 - USE OF “CONDUCTED IN CONFORMANCE WITH THE INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING”

**IIA IMPLEMENTATION GUIDANCE**

- 1300 - QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)
- 1310 - REQUIREMENTS OF THE QAIP
- 1311 - INTERNAL ASSESSMENTS
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- 1320 - DEPORTING ON THE QAIP
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**CHANGE HISTORY**

CHG #	DATE	SECTION	DESCRIPTION/REASON
1	3/31/2016	Internal Self-Assessment 8 <sup>th</sup> Bullet	Revised to change EPE (Employee Performance Evaluation) to HEAR (Houston Employee Assessment and Review).
2	7/1/2019	Relevant Professional Standards	Updated to reflect updates to Professional Standards

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