

**TOOL 21**  
**SELF-ASSESSMENT WITH EXTERNAL**  
**INDEPENDENT VALIDATION**

**METROPOLITAN COUNCIL INTERNAL AUDIT ACTIVITY**

**FEBRUARY 2010**

## EXECUTIVE SUMMARY

The self-assessment evaluator conducted a quality assessment (QA) of the internal audit (IA) activity of the Metropolitan Council in preparation for validation by an independent assessor. The principal objective of the QA was to assess the IA activity's conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.

## OPINION AS TO CONFORMITY TO THE STANDARDS

**It is our overall opinion that the IA activity generally conforms to the *Standards* and Code of Ethics.** For a detailed list of conformance to individual standards, please see Attachment A. The QA team identified opportunities for further improvement, details of which are provided in this report. The IIA *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

## SCOPE AND METHODOLOGY

As part of the preparation for the QA, the IA activity prepared a self-study document with detailed information and sent out surveys to its staff and a representative sample of Metropolitan Council executives. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the IA activity. The team also reviewed the IA activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA activity's workpapers and reports.

## OBSERVATIONS AND POSITIVE ATTRIBUTES

The IA activity environment is well-structured and progressive, where IIA *Standards* are understood and management is endeavoring to provide useful audit tools and implement appropriate practices. Some successful practices in place are:

- Automated audit workpapers.
- Frequent professional training for IA activity staff (including training directed toward obtaining the Certified Internal Auditor designation).
- Development of self-assessment tools for operating and financial controls and facilitation of their use.
- Concise reports with a focus on risk.
- A good reputation and credibility with customers.

Consequently, the comments and recommendations by the evaluator are intended to build on this foundation already in place in the IA activity.

## RECOMMENDATIONS

The recommendations are divided into two groups:

- Those that concern the Metropolitan Council as a whole and suggest actions by senior management. Although these are matters outside the scope of the self-assessment, they are included because they are useful to the Metropolitan Council management and impact the effectiveness of the IA activity and the value it can add.
- Those that relate to the IA activity's structure, staffing, deployment of resources, and similar matters that should be implemented within the IA activity, with support from senior management.

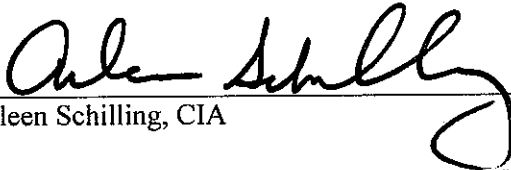
Highlights of the more significant recommendations are set forth below, with details in the main body of the report.

### PART I – MATTERS FOR CONSIDERATION OF METROPOLITAN COUNCIL

1. **Observation.** (Successful Practice) Internal Audit is independent and has appropriate access to senior management, the Audit Committee and the Council, as required by the Standards.

### PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

1. **Observation** (Standard 2330 Documentation) The process of linking electronic workpapers is not consistent amongst the Internal Audit team. Complies with standard, but could be improved.
2. **Observation.** (Standard 1220 Due professional care.) Metropolitan Council Internal Audit Manual procedures were not followed consistently by all staff members. Complies with standard, but could be improved.
4. **Observation.** (Successful Practice) Internal Audit has a good reputation and a high level of credibility with its customers.



Arleen Schilling, CIA

## OBSERVATIONS AND RECOMMENDATIONS

### PART I – MATTERS FOR CONSIDERATION OF METROPOLITAN COUNCIL MANAGEMENT

These observations and recommendations originated principally from the comments received from the management survey, our interviews with selected executives, and follow-up of these matters. All are of direct importance to enhancing effectiveness and added value of the IA activity.

N/A

**PART II – ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY**

**1. Observation** IA has implemented electronic workpapers in 2009. The process of linking workpapers is not consistent amongst the IA team.

**Recommendation**

**Guidelines** be developed identifying the levels of electronic linking within the workpapers. This will allow workpaper reviewer(s) to more efficiently review the workpapers.

**Internal Audit Response**

Internal Audit will develop the suggested guidelines within the next 90 days to ensure that the linking process is consistent across the team.

**2. Observation**

One set of workpapers reviewed did not have separate finding sheets for each finding. The IA manual, section 3.5 describes required documentation for each finding.  
(Section 1220 Due Professional Care)

**Recommendation**

**That all workpaper findings** be documented in accordance with IA manual requirements.

**Internal Audit Response**

The documentation requirements will be reviewed and reiterated. Workpaper reviews will also emphasize this requirement to ensure that work paper documentation is consistent across the Internal Audit Division.

**ATTACHMENT A  
STANDARDS CONFORMANCE  
EVALUATION SUMMARY**

**ABC ORGANIZATION**

		("X" Evaluator's Decision)		
		GC	PC	DNC
<b>OVERALL EVALUATION</b>		X		
<b>ATTRIBUTE STANDARDS</b>		X		
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	X		
1010	Recognition of the Definition of Internal Auditing	X		
<b>1100</b>	<b>Independence and Objectivity</b>	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>	X		
1310	Requirements of the Quality Assurance and Improvement	X		
1311	Internal Assessments	X		
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</i>	X		
1322	Disclosure of Nonconformance	X		
<b>PERFORMANCE STANDARDS</b>		X		
<b>2000</b>	<b>Managing the Internal Audit Activity</b>	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		

		("X" Evaluator's Decision)		
		GC	PC	DNC
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
<b>2100</b>	<b>Nature of Work</b>	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
<b>2200</b>	<b>Engagement Planning</b>	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
<b>2300</b>	<b>Performing the Engagement</b>	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
<b>2400</b>	<b>Communicating Results</b>	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in conformance with the <i>International</i>	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
<b>2500</b>	<b>Monitoring Progress</b>	X		
<b>2600</b>	<b>Management's Acceptance of Risks</b>	X		
<b>IIA Code of Ethics</b>		X		

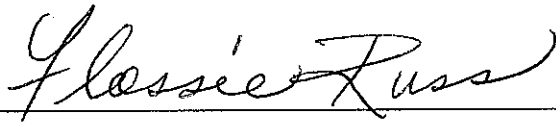
## ATTACHMENT B INDEPENDENT VALIDATOR STATEMENT

The validator was engaged to conduct an independent validation of the Metropolitan Council internal audit (IA) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

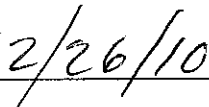
In acting as validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period February 25-26, 2010, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the president and chief executive officer, the chief financial officer, the audit committee chair, other senior members of management, and the external auditors.

I concur fully with the IA activity's conclusions in the self-assessment report attached. Note that two successful professional practices, were recommended by the validator and accepted by the CAE for inclusion in the final report.

Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.



Flossie Russ  
Independent Validator



Date