Quality Assurance and Improvement Plan – Self-Assessment
with Independent External Validation

As of June 14, 2024

Issued July 22, 2024

Acronyms

The following acronyms will be used throughout the report:

1. Standards - *International Standards for the Professional Practice of Internal Auditing*
2. QAIP – Quality Assurance Improvement Plan
3. KPPA - Kentucky Public Pensions Authority
4. CERS - County Employees Retirement System
5. KRS - Kentucky Retirement System
6. CEO – Chief Executive Officer
7. IIA - Institute for Internal Auditors

Background

The *Standards* require that an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The quality assessment can be accomplished through a full external assessment or a self-assessment with independent validation.

Opinion

It is our overall opinion that the Division of Internal Audit generally conforms with the *Standards* and generally conforms with the Code of Ethics.

A detailed list of conformance with the individual standards and the Code of Ethics is shown in appendix A.

The Institute of Internal Auditors' *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."

1. "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and/or the Code of Ethics.
2. "Partially Conforms" means that deficiencies in practice are noted that are judged to deviate from the *Standards* and/or the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
3. "Does Not Conform" means that deficiencies in practice are judged to deviate from the *Standards* and/or the Code of Ethics and are significant enough to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Objectives

1. The principle objective of the quality assessment was to assess the Division of Internal Audit's conformance with the *Standards* and the Code of Ethics.
2. The Division of Internal Audit also evaluated its effectiveness in carrying out its mission, as set forth in the internal audit charter; identified successful internal audit practices demonstrated by the Division of Internal Audit; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.
3. Request an external independent assessor validate the results of the self-assessment. The IIA has a process in place to assist with this request.

Scope

1. The scope of the quality assessment included the Division of Internal Audit, as set forth in the internal audit charter and approved by the KPPA Board, which defines the purpose, authority, and responsibility of the Division of Internal Audit.
2. The independent external validation of the quality assessment was concluded on June 14, 2024, and provides the Audit Committee with information about the Division of Internal Audit as of that date.
3. The *Standards* and the Code of Ethics in place and effective as of June 30, 2024, were the basis for the quality assessment.

Methodology

The Self-Assessment was completed by two internal audit staff members and the review was conducted by the two staff members currently working towards achieving the Certified Internal Auditor license. The results were presented to the Chief Auditor, who provided the management response to the findings. The Division of Internal Audit utilized the Quality Assessment Manual for the Internal Audit Activity published by the IIA to complete the self-assessment. All questionnaires and surveys were designed by the IIA and internal audit staff used these items in their entirety. Information designed by the IIA and completed by internal audit staff included the following items:

1. Complete and detailed planning guides,
2. Survey guides,
3. Testing programs,
4. Evaluation summary which was used to document all conclusions and observations, and
5. Self-assessment report template

The independent external validation team consists of two IIA Louisville Chapter members who are trained to perform self-assessment validations. The QAR team Independent Validation Statement can be found in Appendix B.

Categories of Observations

Observations in the Self-Assessment Results section are divided into three categories:

1. Successful Internal Audit Practices – Areas where the Division of Internal Audit is operating in a particularly effective or efficient manner.
2. Opportunities for Continuous Improvement – Observations of opportunities to enhance the efficiency or effectiveness of the Division of Internal Audit'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 Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities.
3. Gaps to Conformance – Areas identified where the Division of Internal Audit is operating in a manner that falls short of achieving one or more major objectives and attains an opinion of "partially conforms" or "does not conform" with the Standards or the Code of Ethics. These items will include recommendations for actions needed to be "generally in conformance," and will include a response from the Division of Internal Audit with an action plan to address the gap.

Use of Report

This report is intended solely for use by the KPPA Audit Committee, the CERS and KRS Boards and CEOs, and the Division of Internal Audit. This report is not intended to be, and should not be, used by anyone other than the specified parties. All final reports are subject to Open Records Requests.

Self-Assessment Results

Standards:	1000 and 1010
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• The internal audit charter is comprehensive and is consistent with the Mission of Internal Audit and the mandatory elements of the *Standards*. • There is specific language that recognizes the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. • The charter is reviewed and approved annually by the Audit Committee and ratified by the Board. As a result, the charter is updated in a timely manner when changes in the IPPF become effective.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Standards:	1100 to 1130
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• New reporting structure of the Chief Auditor position ensures independence within the agency. • Division of Internal Audit takes steps to ensure staff that transfer from other agency divisions do not complete audits over their former division for at least one year.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Standards:	1200 to 1230
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• The Division of Internal Audit is made of up individuals with different backgrounds and expertise, which provides a wide range of skills and knowledge. • Four of the five staff are currently working towards a professional certification.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Standards:	1300 to 1322
Overall Rating:	Partially Conforms
Successful Internal Audit Practices:	The Division of Internal Audit acknowledges that this area needs strengthening and has begun taking steps to complete the internal and external assessments.
Opportunities for Continuous Improvement:	• Continue working on the development of the QAIP. • Utilize surveys after engagements as a part of the assessment process.
Gaps to Conformance:	An external assessment or internal assessment with validation has not been completed in the past five years; however, the QAR Team notes that our assessment meets this criteria.
Internal Audit Response:	1. We concur with this gap to conformance with the *Standards*. We will work with KPPA management on the procedures to obtain an internal assessment with validation. We intend to have this completed during fiscal year 2024. 2. We have developed surveys that we will begin sending out with the next completed projects.

Standards:	2000 to 2070
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• The annual audit plan is risk-based. • Since the internal audit activity does not include an IT expert, review of the IT infrastructure is outsourced to ensure a complete and accurate review is performed. • Internal audit procedures are documented in detail and kept up to date as changes are needed.
Opportunities for Continuous Improvement:	• Develop a strategic plan specific to the Division of Internal Audit. • Ensure all relevant stakeholders are consulted when preparing the risk assessment. • Ensure the risk assessment specifically address areas that need to be reviewed for effectiveness and efficiency. • Add the number of internal audit resources needed for engagements identified on the risk assessment.
Gaps to Conformance:	None noted
Internal Audit Response:	We concur with the Opportunities for Continuous Improvement and will take the following action: 1. Internal Audit will work with the Audit Committee on a strategic plan. 2. A new process is in place for the risk assessment and feedback will be obtained from all relevant stakeholders. 3. We will update the risk assessment report to ensure it includes areas that need to be reviewed for effectiveness and efficiency. We will also include the number of internal audit resources needed for each engagement.

Standards:	2100 to 2130
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	The internal audit activity evaluates controls for effectiveness and efficiency and promotes continuous improvement.
Opportunities for Continuous Improvement:	Perform a review of organizational governance.
Gaps to Conformance:	While a stand-alone review of KPPA governance has not been performed, Internal Audit does assess governance as part of each audit performed.

Internal Audit Response:	We concur with the Opportunities for Continuous Improvement. We discussed a governance audit at a recent Audit Committee Meeting (May 2023). We will ensure this item is included on the next risk assessment. We do take steps to look at governance with each audit engagement.

Standards:	2200 to 2240
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• Planning procedures are well documented. Templates have been established to ensure consistency. • New audit software allows reviewers to easily connect identified risks, established controls, and testing procedures.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Standards:	2300 to 2340
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• Work papers are prepared from templates to help ensure consistency and accuracy. • New audit software makes it easy to see who prepared workpapers, who performed the review, and when the review was performed.
Opportunities for Continuous Improvement:	Establish a formal root-cause analysis.
Gaps to Conformance:	None noted
Internal Audit Response:	We concur with the Opportunities for Continuous Improvement. A formal root-cause analysis will be developed. Procedures to complete this analysis will be added to our Process Documentation SharePoint site.

Standards:	2400 to 2450
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	Final audit reports include the engagement's objectives, scope, and results. The reports also include a background of the process under review. For complex processes, a detailed background and testing methodology is included as an appendix.
Opportunities for Continuous Improvement:	An overall opinion is tracked in the audit software, but this opinion is not included in the final report. However, the final audit reports contain elements of an overall opinion.
Gaps to Conformance:	None noted
Internal Audit Response:	We concur with the Opportunities for Continuous Improvement. The template of the reports will be updated to pull in the overall audit opinion.

Standards:	2500
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	• A new process has been implemented that makes it easy to track open findings and also allows for reports to be run regarding all issues (open and closed). • A follow-up on open audit findings is completed annually and the results are presented to KPPA management and the Audit Committee.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Standards:	2600
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	The Charter for the Audit Committee outlines a process for the Division Director of Internal Audit to bring concerns to the Audit Committee if the Division Director of Internal Audit believes KPPA management has accepted a level of risk that may be unacceptable to the organization.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Standards:	Code of Ethics
Overall Rating:	Generally Conforms
Successful Internal Audit Practices:	The Division of Internal Auditor follows the Code of Ethics and attest to this annually. This attestation is presented to the Audit Committee on annually.
Opportunities for Continuous Improvement:	None noted
Gaps to Conformance:	None noted
Internal Audit Response:	Not required

Appendix A

Overall Evaluation	Generally Complies	Partially Complies	Does Not Comply
	X		

Code of Ethics	Generally Complies	Partially Complies	Does Not Comply
	X		

Attribute Standards 1000 through 1300		Generally Complies	Partially Complies	Does Not Comply
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program		X	
1310	Requirements of the Quality Assurance and Improvement Program		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 International Standards for the Professional Practice of Internal Auditing"	X		
1322	Disclosure of Nonconformance	X		

	Performance Standards 2000 through 2600	Generally Complies	Partially Complies	Does Not Comply
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval		X	
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing		X	
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation		X	
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing*"	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Independent Validation Statement

The Louisville Chapter of the Institute of Internal Auditors (IIA) assessment team of Sonja Heath, CIA and Laketa Short (QAR Team) was engaged to conduct an independent validation of Kentucky Public Pension Authority (KPPA) IA self-assessment. The primary objective of the validation was to verify the assertions and conclusions made in the attached self-
assessment report concerning adequate fulfillment of the organization's basic expectations of IA, its conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing*, and successful internal audit practices and opportunities for continuous improvement noted. Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices based on benchmark data, governance activities, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive.

In acting as the qualified, independent external assessor from outside the organization, QAR Team is fully independent of KPPA IC and has the necessary skills to undertake this engagement. The validation, concluded on June 14, 2024, consisted primarily of a review and a test of the procedures and results of IA's self-assessment. In addition, interviews were conducted with the president and CEO, CFO, audit committee chair, and other members of senior management.

The QAR Team concurs with IA's conclusions and observations documented in the self-assessment report attached. Implementation of the recommendations contained in the self-assessment report will improve the effectiveness, enhance the value, and support IA's conformity with the *Standards* and the Code of Ethics.

Sonja M. Heath, CIA
_____
Sonja M. Heath, CIA
Independent External Assessor Performing the Validation

7/22/2024
_____
Date