



# External Quality Control Review

of the  
PORT OF SEATTLE  
INTERNAL AUDIT DEPARTMENT  
IIA STANDARDS

Conducted in accordance with guidelines of the  
**Association of Local Government**



# Association of Local Government Auditors

August 9, 2012

Ms. Joyce Kirangi, Director  
Internal Audit Department  
Port of Seattle  
Pier 69 Corporate Headquarters  
2711 Alaskan Way  
Seattle, WA 98121

Dear Ms. Kirangi:

We have completed a peer review of the Port of Seattle Internal Audit Department for the period of July 1, 2011 through June 30, 2012. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing*, published in July 2009 by the Association of Local Government Auditors (ALGA).

We understand that your Internal Audit Department uses *the International Standards for the Professional Practice of Internal Auditing (the Standards)* as a best practice tool, and the request for a peer review pursuant to *the Standards* was made by your Audit Committee. The Audit Committee intends to use the results of the peer review as a tool for future decision-making.

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with *the Standards* issued by The Institute of Internal Auditors. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that, except for the deficiencies noted below, the Port of Seattle Internal Audit Department's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the period of July 1, 2011 through June 30, 2012.

Deficiencies found in your internal quality control system include:

- Update and implement the Internal Audit Charter, as required by *the Standards*
- Provide mandatory communication to the Audit Committee and/or senior management, as required by *the Standards*
- Update the Internal Audit Department's *Auditor's Handbook*, as required by *the Standards*

These control deficiencies resulted in recurring nonconformance with *the Standards* 1000, 1010, 1110, 1220, 1300, 2000, 2100, 2200, and 2400. We have prepared a separate letter providing details of our findings and recommendations for strengthening your internal quality control system.

Ruthe Holden  
Los Angeles County  
Metropolitan  
Transportation Authority

David A. Schroeder  
City of Houston

Janice G. Williams  
San Antonio VIA  
Metropolitan Transit

Nicole Rollins  
Jackson County,  
Oregon



# Association of Local Government Auditors

August 9, 2012

Ms. Joyce Kirangi, Director  
Internal Audit Department  
Port of Seattle  
Pier 69 Corporate Headquarters  
2711 Alaskan Way  
Seattle, WA 98121

Dear Ms. Kirangi,

We have completed a peer review of the Port of Seattle Internal Audit Department for the period of July 1, 2011 to June 30, 2012 and issued our report dated August 9, 2012. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The risk assessment process used for the engagements is very comprehensive and provides a great framework for ensuring that staff resources are focused in areas that are auditable and important.
- You have effectively implemented the automated work paper package software, TeamMate Workpaper module, and then integrating your paper processes to take advantage of the software's capabilities
- Internal Audit Management promotes an interactive environment where staff are empowered to take ownership of key portions of the internal audit function.

We offer the following observations and suggestions to help your organization achieve full conformance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*:

### **Update and Implement the Audit Department Charter**

IIA AS 1000 and AS 1010 – *Purpose, Authority and Responsibility*, require that the audit organization periodically review its Charter and present it to the Audit Committee for approval. It also requires the purpose be clearly articulated, and the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognized in the Charter. In addition, the Charter should include the requirement for the Audit Committee to approve the hiring and firing of the Director, approval of the Annual Audit Plan and approval of the Department's budget.

Currently the Department's Audit Charter is in draft form and does not include all of the required elements included in the IIA standards. In addition, the Audit Charter has not been approved by the Audit Committee.

- We recommend that the Director present the Internal Audit Department's Audit Charter which includes all required IIA standards to the Audit Committee for review and approval.

### **Provide Mandatory Communication required by Standards**

IIA AS 1110 requires the Director to confirm at least annually to the Audit Committee, the organizational independence of the internal audit department. IIA AS 1000 requires the Director to periodically review the internal audit charter and present it to senior management and the Audit Committee for approval. IIA

AS 1320 requires the Director to communicate the results of the quality assurance program to senior management and the Audit Committee.

Currently, the Director is not presenting these three required communications to the Audit Committee.

- We recommend that the Director include these three required communications in the Internal Audit Department's *Auditor's Handbook* (Handbook) and schedule the required communications on the Audit Committee's future agenda.

**Updating Internal Audit Department's Auditor's Handbook**

IIA PS 2040 *Policies and Procedures* requires the Director establish policies and procedures to guide the internal audit activity. The Internal Audit Department's *Auditor's Handbook* (Handbook) dated February 14, 2012 does not include sufficient guidance to provide reasonable assurance of complying with the IIA standards.

IIA AS 1010 requires that the mandatory nature of the Definition of Internal Auditing, the Code of Ethics and the Standards must be recognized and discussed with senior management and the Board. The current Handbook recognizes the Standards as a best practice.

IIA AS 1300 - 1322 requires the audit organization to maintain a quality assurance and improvement program including an annual self-assessment which is communicated to the Audit Committee. The Handbook does not include all of the IIA annual self-assessment process requirements or the mandatory use of "conforms with the IIA International Standards for the Professional Practice of Internal Auditing".

IIA PS 2000 – 2500 includes requirements that staff must comply with when completing assurance and consulting services. The Handbook should include sufficient guidance on the IIA requirements to complete an assurance and consulting engagement in compliance with the IIA standards.

- We recommend that the Handbook be updated to include sufficient direction to the Internal Audit Department's staff to ensure compliance with the IIA standards.

We extend our thanks to you, your staff and the other Port of Seattle officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Ruthe Holden  
Los Angeles County  
Metropolitan Transportation  
Authority



David A. Schroeder  
City of Houston



Janice G. Williams  
San Antonio VIA  
Metropolitan Transit



Nicole Rollins  
Jackson County, Oregon



P.O. Box 1209  
Seattle, WA 98111-1209  
Tel: (206) 728-3000

[www.portseattle.org](http://www.portseattle.org)

August 9, 2012

Ruthe Holden  
Team Leader  
Los Angeles County Metropolitan

Dear Ms. Holden:

I would like to thank you, the members of your peer review team (David Schroeder, Janice Williams, and Nicole Rollins), and the Association of Local Government Auditors (ALGA) for the peer review covering the period July 1, 2011 through June 30, 2012. This was the first peer review of the Port of Seattle Internal Audit Department since the department was formally established in 2008. We benefitted greatly from the experience.

We also appreciate your companion letter to the opinion describing areas of improvement that are necessary in order to be in compliance with the International Standards for the Professional Practice of Internal Auditing (the Standards). We concur with each of your observations and recommendations. We will actively pursue corrective action with guidance from the Audit Committee.

**Recommendation:**

Update and Implement the Audit Department Charter -- IIA As 100 and AS 1010 – Purpose, Authority and Responsibility, requires that the audit organization periodically review its Charter and present it to the audit Committee for approval. It also requires the purpose be clearly articulated, and the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards must be recognized in the Charter. In addition, the Charter should include the requirements for the Audit Committee to approve the hiring and firing of the Director, approval of the Annual Audit Plan and approval of the Department's budget. Currently, the Department's audit charter is in draft form and does not include all the required elements included in the IIA standards. In addition, the Charter has not been approved by the Audit Committee. We *recommend* that the Director present the Internal Audit Department's Audit Charter which includes all required IIA standards to the Audit Committee for review and approval.

**Response:**

We concur with the recommendation. We will actively pursue corrective action with guidance from the Audit Committee.

As stated in the peer review engagement letter, our Department currently operates under the Government Auditing Standards issued by the Comptroller General of the United States. We use the International Standards for the Professional Practice of Internal Auditing (the Standards) as a best practice tool. The request for the peer review pursuant to the IIA standards was made by the Audit Committee. The Committee intends to use the results of the peer review as a tool for future decision-making.





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**Recommendation:**

IIAAS 1110 – provide mandatory communication required by standards. We *recommend* the Director include three required communications in the Internal Audit Department’s Handbook and schedule the required communications on the Audit Committee’s future agenda.

**Response:**

We concur with the recommendation. We will actively pursue corrective action with guidance from the Audit Committee.

As stated in the peer review engagement letter, our Department currently operates under the Government Auditing Standards issued by the Comptroller General of the United States. We use the International Standards for the Professional Practice of Internal Auditing (the Standards) as a best practice tool. The request for the peer review pursuant to the IIA standards was made by the Audit Committee. The Committee intends to use the results of the peer review as a tool for future decision-making.

**Recommendation:**

IIA PS 2040 Policies and Procedures requires the Director establish policies and procedures to guide the internal audit activity. We *recommend* that the Department Handbook be updated to include sufficient direction to the Internal Audit Department’s staff to ensure compliance with the IIA standards.

**Response:**

We concur with the recommendation. We will actively pursue corrective action with guidance from the Audit Committee.

As stated in the peer review engagement letter, our Department currently operates under the Government Auditing Standards issued by the Comptroller General of the United States. We use the International Standards for the Professional Practice of Internal Auditing (the Standards) as a best practice tool. The request for the peer review pursuant to the IIA standards was made by the Audit Committee. The Committee intends to use the results of the peer review as a tool for future decision-making.

Again, thank you for the thorough review and valuable insight. We will actively pursue corrective action with guidance from the Audit Committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Joyce Kirangi".

Joyce Kirangi  
Director, Internal Audit Department  
Port of Seattle, Washington

cc: Erin Kenney, ALGA Peer Review Coordinator  
David A. Schroeder, Team Member  
Janice G. Williams, Team Member  
Nicole Rollins, Team Member

