BOARD OF REGENTS
BRIEFING PAPER

1. Agenda Item Title: Handbook Revision, Title 4, Chapter 9;

Meeting Date: September 4, 2014

2. BACKGROUND & POLICY CONTEXT OF ISSUE:

The consultant Goldstein and Associates was requested to review the activities of the NSHE Internal Audit Department after the retirement of its long-time director in December, 2013. The review was performed to identify areas where improvements and best practices could be implemented within the internal audit function. Reports of the consultant's findings and recommendations were presented at the May 30, 2014 Audit Committee meeting. The recommendations included revising the responsibilities of the audit director and the internal audit department to place a greater emphasis on integrating audit into broader enterprise risk management practices, adjusting audit methods to incorporate additional proactive identification of material risks, the adoption of technology in the audit process, and developing and diversifying the skills of the audit team. The consultant was subsequently requested to propose revisions to the Internal Audit Department Charter to reflect the recommendations made in the reports.

3. SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:

Revision of the Internal Audit Department Charter to reflect the recommendations made by consultant Goldstein and Associates, as described above.

4. IMPETUS (WHY NOW?):

Action is needed to incorporate the proposed revisions into the Charter.

5. BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:

-Long-serving NSHE Internal Audit Department Director retired in December, 2013.
-Consultant hired to review the activities of the NSHE Internal Audit Department and identify areas where improvements and best practices could be implemented.
-Consultant's reports of findings and recommendations presented at the May 30, 2014 Audit Committee meeting.
-Consultant subsequently requested to propose revisions to the Internal Audit Department Charter to reflect the recommendations made in the reports.
-Action is needed to incorporate the proposed revisions into the Charter.

6. POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:

The current Charter is satisfactory and no changes are necessary.

7. ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:

Do not incorporate the consultant's recommendations into the Internal Audit Department Charter.

Revised: June 2010

8. COMPLIANCE WITH BOARD POLICY:

❑ Consistent With Current Board Policy: Title #_____ Chapter #_____   Section #_____
❑ Amends Current Board Policy: Title #_4__ Chapter #_9__ Section #____
❑ Amends Current Procedures & Guidelines Manual: Chapter #_____ Section #_____
❑ Other:_____
❑ Fiscal Impact: Yes____   No__X___
   Explain: _____

Revised: June 2010

PROPOSED REVISIONS – *BOARD OF REGENTS HANDBOOK*
TITLE 4, CHAPTER 9, SECTIONS 1-8
Internal Audit Department Charter

Additions appear in ***boldface italics***; deletions are [stricken and bracketed]

Consultants Proposed Revisions – July 29, 2014

Section 1. **Nature**

The Internal Audit Department is established as an independent and objective assurance and consulting activity within the Nevada System of Higher Education (NSHE) for the review of operations as a service to management. It assists NSHE in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organizations risk management, control and governance processes.
(B/R 3/14)

Section 2. **Objective and Scope**

The objective of internal auditing is to assist all levels of the NSHE management in the effective discharge of their responsibilities, by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The Internal Audit Department is concerned with any phase of activity where it can be of service to management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. The attainment of this overall objective involves such activities as:

1. Reviewing and appraising the soundness, adequacy, and ***efficient*** application of accounting, financial, and operational controls at executive and staff levels.

2. Ascertaining the extent of compliance with established policies, plans, and procedures.

3. [Ascertaining the extent to which assets of the NSHE are accounted for and safeguarded from losses of all kinds.] ***Determining whether significant risks appropriately identified and managed.***

4. Ascertaining the reliability of management data developed and reported within the NSHE.

5. Recommending appropriate improvements in internal accounting and operations where controls have been found to be malfunctioning***, inefficient,*** or where controls should be instituted and none exist. ***Appraising the effectiveness of procedures, as modified, to ensure that deficiencies are satisfactorily resolved.***

6. Recommending appropriate improvements [in the accountability and safeguarding of NSHE assets and the reliability of management data.] ***to systems, processes and organizational structures to provide accurate, timely and reliable financial and operational information.***

7***.*** ***Fostering quality and continuous improvement in NSHE's risk management and control processes.*** Reporting the results of examinations in a timely manner and reviewing the timeliness of corrective actions.

8. *Confirming information technology and data governance supports NSHE's strategies and objectives.*

9. *Ascertaining whether information security practices adequately safeguard NSHE data assets and comply with applicable policies and regulations.* [Appraising the effectiveness of procedures, as modified, to ensure that deficiencies are satisfactorily resolved.]

10. *Designing, installing, and operating systems are not audit functions; however, 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.*

Section 3.   <u>Authority and Responsibility</u>

The internal audit activity is established by the Board of Regents. The internal audit activity's responsibilities are defined by the Board as part of its oversight role. The Internal Audit Department is provided with authority for full access to all of the NSHE records, properties, and personnel relevant to the subject of review. The Department is free to review and appraise policies, plans, procedures, and records.

The responsibilities of the Department are as follows:

1. Develop a sophisticated internal audit program that will include evaluation of the effectiveness of financial and related operational controls and review of compliance by NSHE personnel with NSHE policies and procedures.

2. Maintain the capacity to:
   a. *Perform audits to independently assess governance, risk management and control processes throughout NSHE.*
   b. *Provide consulting services, with the mutual agreement of the "client", to improve NSHE governance, risk management and control processes.*
   c. *Investigate, as necessary, allegations of improper activities including fraud, misuse of university resources, and unethical behavior or actions.*

3. [2. Safeguard the scope, technical aspects] *Periodically measure and continually improve the* [and] efficiency of internal audit activity by means of a quality control program, *effective use of technology, and proactive performance management. Institute appropriate budgetary and cost control over the auditing program.* [including thorough review of plans, programs and field visits]

4. [3] Institute controls to assure that audit findings have been reviewed with the management responsible for operations of the functions examined; see that findings are presented to management at various levels so as to motivate corrective actions; and arrange for the development of appropriate comments and recommendations for inclusion in periodic condensed reports to be presented to the Board of Regents' Audit Committee.

[4. Designing, installing, and operating systems are not audit functions; however, 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.]

5. Make available to the independent publi*c*[e] accountants working papers, copies of audit reports, and pertinent analyses to aid them in determining the scope of their examination. Inform the independent public accountants and other outside audit agencies of the internal audit schedule to avoid duplication of effort and to maximize the benefits of the total investment in audit activities.

6. [See to the recruitment and training of the audit staff.] *Maintain a staff with the skills,*

experience and professional certifications to meet the Department's scope of responsibilities and aligned with NSHE's risks.

7. ***Recommend changes to policy or required practices to sustain an effective balance between the magnitude of risk, the materiality of failed control, and the cost of compliance.*** [Institute appropriate budgetary and cost control over the auditing program.]

8. The internal audit activity will govern itself by adherence to appropriate internal auditing standards including, but not limited to, The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the Internal Standards for the Professional Practice of Internal Auditing (Standards).

9. Coordinate all activities of the Department with others so as to best achieve the audit objectives and the objectives of the NSHE***, including spreading adoption of effective practices.***

In performing its functions, the Internal Audit Department has neither direct responsibility for, nor authority over, any of the activities that are reviewed. Therefore, the review and appraisal activity does not in any way relieve other persons in the organization of the responsibilities assigned to them.
(B/R 3/14)

Section 4.   Independence

In order to maintain independence from the System Administration and maximize public accountability, the chief internal auditor reports to the Audit Committee of the Board of Regents for primary oversight and general direction. The chief internal auditor also has a secondary reporting relationship to the vice chancellor for budget and finance for day-to-day supervision, technical direction, and personal performance evaluation. In order to maintain objectivity, the Internal Audit Department will not undertake to develop and install procedures, prepare records, or engage in any other activity that it would normally review and appraise, and that could reasonably be construed to compromise its independence. Objectivity shall not be adversely affected by the recommendation of the standards of control to be applied in the development of systems and procedures under review.
(B/R 3/14)

Section 5.   Audit Requests

The chief internal auditor may determine during the year that an unscheduled audit should be performed.   The chief internal auditor will inform the Audit Committee chair of special audits.

The chair of the Audit Committee may request an audit be performed based upon specific information provided to the chief internal auditor.   If the chief internal auditor is in agreement that the audit should be performed, the audit will be added to the audit schedule.   If the chief internal auditor is not in agreement that the audit should be performed, the Audit Committee chair may place the item on the next Audit Committee agenda for review and action by the Audit Committee.

Any member of the Board of Regents may request that the Audit Committee chair place a request for an audit on the Audit Committee agenda. The chief internal auditor will make a recommendation to the Audit Committee regarding the audit request.

The policy of the Audit Committee is to only perform special audits based on specific factual information and assessment of risk that would justify an audit.
(B/R 3/14)

Section 6. **Internal Audit Plan**

Annually, the chief internal auditor will submit to the chancellor and the Board an internal audit plan for review and approval. Any significant deviation from the approved plan will be communicated to senior management and the Audit Committee.
(8/R 3/14)

Section 7. **Reporting and Monitoring**

A written report will be prepared and issued by the chief internal auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results and institution responses will be communicated to the Audit Committee.
(B/R 3/14)

Section 8. **Periodic Assessment**

The NSHE chief internal auditor will communicate to the chancellor and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of external assessments conducted at least every five years.
(B/R 3/14)

Nevada System of Higher Education
Nevada System of Higher Education **Position Description Questionnaire**

INSTRUCTIONS:
1. Complete form, sign, and submit to immediate supervisor;
2. Supervisor review, approve, sign, forward to Vice Chancellor;
3. Vice Chancellor – review, approve, sign, forward to Human Resources;

Note: All information must be provided. Incomplete forms will be returned.

Incumbent's Name: Vacant
Title: Chief Internal Auditor
Supervisor: Vice Chancellor for Budget and Finance
Date: December 1, 2014
Grade/Proposed Grade: 4

1) What is prompting this request? If this is not a new position, have there been changes in the duties and responsibilities? If so, please detail the changes below.

The retirement of the Assistant Vice Chancellor for Internal Audit and the restructure of position duties. This position description reflects the revised duties and responsibilities.

2) Briefly describe the major purpose of this position. What is it expected to accomplish? Describe the positions role within the NSHE.

Direct the Systemwide Internal Audit function in accordance with the Department Charter.

3) Essential Functions: List the major functions of the job, including <u>percentage</u> of time devoted to each. Describe the purpose and impact of each function. Percentage of time for each major function may fluctuate dependent upon work assignments given by the supervisor. Other functions may be added as appropriate.

<u>100% Internal Audit-</u>
- Develop and implement a risk based process to select and prioritize areas for audit.

- Furnish the audit committee members with schedules of internal audits and other reports, data, and commentary necessary for the conduct of their duties.

- Recruit, retain, and develop a professional staff with the skills and certifications required to fulfill the Department Charter.

- Research and deploy appropriate leading practices and technologies to improve the Department's effectiveness.

1

- Coordinate and communicate with System and institution leadership to raise awareness of systemic risks and spread the adoption of successful practices.

- Lead and perform audits at all locations of NSHE to provide an independent assessment of risk management and control processes.

- Lead and perform investigations at all locations of NSHE to provide independent evaluations of allegations of fraud, misuse of resources, financial irregularities, unethical actions and significant control weaknesses.

- Lead and perform operational reviews to evaluate and improve a requesting unit's risk management and control processes.

- Work with NSHE senior leadership to identify key business risks and establish effective risk management strategies.

- Recommend modifications to policies and procedures to sustain an effective balance between the materiality of risk and cost of compliance.

- Establish a quality-control program to review audit plans, programs, documentation, and methods-at the office and in the field-to safeguard the independence, scope, technical proficiency, and efficient performance of field audits.

- Make the internal findings and supporting workpapers, reports and commentary available to the independent auditor.

- Inform the independent accountants of past and projected internal audit schedules, to avoid duplication of effort.

- Arrange to review audit findings with staff at all management levels, especially with those responsible for the functions examined, to motivate corrective action where needed.

- Determine whether divisional units in the System are performing their planning, accounting, custodial, and control activities in compliance with management instructions, applicable statements of policy and procedures in a manner consistent with both System objectives and high standards of administrative practice.

- Coordinate the planning and execution of the Federal financial fund audits required by the Office of Management and Budget (OMB).

- Serve as the coordinator between each campus and OMB regarding audit problems and their resolution.

2

4) Of those functions, which ones require the incumbent to make choices, determinations, or judgments?

All functions require choices, determinations and judgments.

5) Describe how decisions and judgments made by the incumbent and the results of the work performed impact the department and the system as a whole. What kind of impact would an error made by the incumbent in this position have?

Decisions and judgments impact the confidence of the Board of Regents in the quality of the programs managed by this position. Errors will affect the confidence of the Board of Regents regarding the Internal Audit function.

6) Are there specific program (s) for which the incumbent is responsible? If so please list them with any data that is relevant, such as number of programs, monetary impact, etc

Internal Audit, develop programs and supervise staff members.

7) Describe the knowledge, skills and abilities <u>essential</u> to the performance of this job.

- Conformance with audit standards of the Institute of Internal Audit, Governmental Accounting Standards Board, Internal Revenue Service and others.
- Audit experience with information technology systems, internal controls found within modern enterprise resource planning systems (ERP), data security and data governance.
- Knowledge of leading practices and technologies used in audits and investigations.
- Excellent communication and presentation skills.
- Proven supervisory skills to recruit retain and develop a professional audit staff.
- Knowledge of higher education financial and reporting standards, including fund accounting.
- Knowledge or experience with audit of sponsored research activities, the Federal Office of Management and Budget (OMB) Uniform Guidance for Federal Awards.

8) Indicate the minimum qualifications which are necessary in filling this position should it become vacant. Please keep in mind the duties/responsibilities of the position rather than the qualifications of the incumbent.

Minimum educational level and amount of work experience, including appropriate field, if any:

Bachelor's Degree in accounting, finance, or related field and 10 years of comparable professional/managerial experience; (or) a Master's Degree and 7 years of comparable professional/managerial experience. Certified Public Accountant is preferred.

3

9) Describe the type and extent of supervision received.

Minimal supervision is received.

10) Describe the type of contacts (both internal and external) encountered in performing the duties of this job. Explain the nature, frequency and purpose of these contacts, i.e. to provide services, to resolve problems, to negotiate.

Serve as the primary contact on a daily basis with Internal Audit Department staff for general direction and supervision. The incumbent has daily contact with the Vice Chancellor for Budget and Finance for problem resolution and administrative matters. Periodic contact with the Chair of the Board of Regents Audit Committee, System Office personnel, and institutional personnel at the Controller and Vice President level to discuss audit and/or department related matters.

11) Give three or four examples of the most complex or challenging issues associated with the responsibilities of this position.

The incumbent needs to evaluate whether a response to a policy or control objective is efficient and effective. The incumbent must determine the materiality of audit findings and understand whether a policy or risk management practice is creating heightened operating costs inconsistent with the materiality of the risk.

12) Physical Demands: If physical demands for the position exceed those described below as sedentary work, list those additional physical demands: Physical demands do not exceed those of sedentary work.

Sedentary Work - Exerting up to 10 pounds of force occasionally (Occasionally: activity or condition exists up to 1/3 of the time) and/or a negligible amount of force frequently (Frequently: activity or condition exists from 1/3 to 2/3 of the time) to lift, carry, push, pull, or otherwise move objects, including the human body. Sedentary work involves sitting most of the time, but may involve walking or standing for brief periods of time. Jobs are sedentary if walking and standing are required only occasionally and all other sedentary criteria are met.

4

13) Please provide any additional information that you consider important but which has not been previously mentioned.

I certify that the statements in this description are accurate and complete to the extent of my knowledge

Employee's Signature:

Supervisor: Please examine the preceding position description. The purpose of this action is to review the position and not to evaluate the particular employee's efficiency, abilities or credentials.

I have reviewed the statements on this document and certify to their accuracy

Supervisor's Signature:

Chancellor/Vice Chancellor's Signature:

Human Resources Director:

PDQ-NSHE-2013

Goldstein & Associates

DRAFT

NSHE

Internal Audit Director Search

February 2014

I. Introduction

This consultancy informs NSHE's search for its next Director of Internal Audit. The retirement of its long serving Director provides an opportunity to evaluate how to build on prior accomplishments and anticipate the evolving audit needs of the System. This project analyzed the challenges and opportunities that will shape the agenda of the new Director from the perspective of Regents, NSHE institution business officers, and System Administration. Interviews with audit leaders at other institutions and a review of leading practices further informed the analysis. This report presents key cross-industry trends, the perspectives of NSHE's leaders on the future of the internal audit function, and the implications for the Director search. A list of interviewees is presented in Appendix I. A summary of leading practices from a review of cross-industry internal audit literature accompanies this report.

II. Trends in Internal Audit Role and Methods

Internal Audit literature suggests four broad trends will reshape the audit function across industries.

1. ***Internal audit departments are expanding their scope to focus on broader, proactive risk identification.*** The initial aftermath of the implementation of Sarbanes-Oxley legislation drove audit functions to focus nearly exclusively on auditing units' compliance with stated policy and practice. While important, this can't be the only focus of internal audits. Too narrow a focus on procedural compliance audits is thought to limit the effectiveness of the audit and misses opportunities to identify broader issues that contribute to risk and limit operational effectiveness. Corporations and non-profits are evolving their audit departments to focus on broader risk drivers. Audits still consider whether units comply with policy or procedure. However, the auditor is also encouraged to identify operational, technological, reputational or financial issues that present material risk to the organization. Internal auditors add further value by identifying trends across audits that suggest systemic weaknesses in risk management or represent opportunities to transfer best practices around the organization.

2. ***Internal audit departments are working within a broader enterprise risk management framework.*** Corporate and increasingly higher education institutions are developing strategies and management processes to more comprehensively identify and manage risk. Enterprise risk management strategies consider regulatory compliance, conflict of interest, crisis readiness, global activities, partnerships and alliances, technology change, and brand and reputation. While overall responsibility for enterprise risk management isn't typically placed solely with the director of internal audit, he or she needs the skills and experience to contribute to these broader risk mitigation strategies.

3. ***Risk based audit programs need to consider a broader set of risk drivers.*** In keeping with the enterprise risk management approach, audit departments are broadening the risk factors used to determine the annual audit plan. Cyclical (time since last audit) and financial criteria (size of operating budget) are prominent but complemented by other criteria. For example, the University of California's risk based audit model considers units' quality and stability of the control environment, business and financial exposure, level of public/political sensitivity, complexity of the compliance environment, and quality of technology and quality of management reporting.

4. ***Audit methods are evolving to incorporate more technology and provide continuous auditing***. Technology is being used to support data mining and analytical techniques to proactively surface anomalies that may be indicators of risk or control weaknesses. Audit reports are also moving from paper to more visual and digital representations that make it easier to convey and track a macro view of risk areas. Continuous auditing represents a proactive method of looking at a systemic process or technology to identify risk areas, rather than relying on an audit of an individual department to surface issues. For example, Penn State University is piloting a continuous (PSU calls it a control point audit) audit approach to review the management of restricted donor funds. Audit is tracking a representative sample of endowment funds (about 15) from receipt of gift, through expenditures and stewardship to evaluate the overall strength of PSU's system of processes and policies that govern gift processing and restricted endowment spending.

It is important for NSHE's next director to be well versed in these trends and prepared to adapt the expertise and methods of the internal audit function to accommodate them. Collectively, they present an opportunity to improve overall risk management and address many of the concerns of NSHE stakeholders described in section III.

III. Evolution of NSHE Audit Function

Internal stakeholders acknowledged the challenges Internal Audit faces with limited resources and the breadth of activities of NSHE. Appreciation was expressed for the department's willingness to work with units to validate findings and solicit institutions' suggestions for the annual audit program. These are practices that the new Director should continue. Interviews revealed several shared perspectives on the opportunity to evolve and improve the internal audit function. These observations are consistent with leading industry trends and practices. Recurring observations include:

1. ***Adjust the risk based audit program.*** Concern was expressed that criteria for selecting units for audits may be too narrowly focused on financial exposure or not weighted appropriately to consider the materiality of risk within the context of the institution and the system. Too many, audits seem to focus too frequently on units that are relatively small (from a budget standpoint) and straightforward (little operational or compliance complexity). A review of the risk based audit program criteria and weightings seem warranted.

2. ***Place greater consideration on the cost of control and the materiality of risk in audit findings.*** Regents and NSHE institution financial leaders expressed concern that audits have been too narrowly focused on compliance with existing policy and procedure. Proactive identification of operational, compliance and reputational risk should receive more attention. In addition, stakeholders would like to see audit reports place greater consideration on the materiality of risk and the cost of remedial actions. Today, small deviations from stated policy that don't present a significant risk are perceived to carry equal weight in audit reports to more substantial findings. Likewise, the cost of remediating a risk isn't consistently balanced against the exposure of the System when recommending a change in practice. Moving forward, Internal Audit should assume a more proactive role in advising the Regents when an existing policy or procedural requirement should be modified as the nature and materiality of a risk lessens.

3. ***Expand the skills of the audit team to align with growing areas of risk and complexity.***
All stakeholders recognize that with a small team it is challenging to cover the landscape of risk areas of NSHE. Future professional development and hiring plans should prioritize expanding expertise in three areas: information technology, operational (or business process) effectiveness and regulatory compliance (e.g., financial aid). In addition, several observed that the next Director should work to further integrate the teams in the North and South to achieve more consistent practice and methods.

4. ***Clarify the lines of accountability inherent in the dual reporting relationship of the Director***. The overall structure for Internal Audit's reporting relationship is appropriate and aligned with best practices. Direct access and accountability to the audit committee is necessary to preserve independence. However, NSHE should take the opportunity of the recruitment to confirm and clarify the dimensions of the administrative reporting relationship of the position. Historically, the accountability of the Director to the Chancellor and Vice Chancellors for Finance and Budgets for personnel decisions, operating budgets, methods and strategies hasn't been consistently understood. Broadly it is recommended that any organization's chief auditor report to executive management for departmental strategy and direction and administrative decisions; and to the board for validation, reinforcement and accountability. As a practical matter this suggests that the audit committee take the lead responsibility for: approving the internal audit charter, approving the annual risk based audit plan, receiving communications from the audit director on internal audits performance of the plan, and approving decisions regarding the appointment, removal and remuneration of the Director. The administrative accountability for the position would then include seeking approval for annual operating budgets, changes to audit strategy, staffing plans, and procedures to work with management to convey audit findings and provide campus and system management an opportunity to identify changes in practice to address identified areas of risk. To preserve independence and effectiveness the Director of Internal Audit must continue to have direct access to the Board and to the Chancellor and Chancellor's cabinet.

5. ***Improve lines of communication between Internal Audit and the business officers and controllers.*** The Internal Audit Director doesn't have a regular venue or structure to meet with the system's financial leaders. Such a mechanism would facilitate sharing best practices observed by the audit teams and spreading them across the System. It would provide a forum for discussing recurring findings that might be indicative of systemic risks or control weaknesses. Finally, it would promote a broader dialogue about the impact of policies and procedures on operational effectiveness and risk mitigation. Convening semi-annual meetings of the Internal Audit leaders, business officers, and controllers across the system would promote such a dialogue.

Recommended Actions

NSHE should use the opportunity to recruit a new Director to address the improvement opportunities identified by stakeholders and position the department to incorporate leading practices. Specific actions that should be taken include:

1. **Revise the existing position profile**. Place a greater emphasis on integrating audit into broader enterprise risk management practices, adjusting audit methods to incorporate additional proactive identification of material risks, leading the adoption of technology in the audit process, and developing and diversifying the skills of the audit team.

2. **Conduct a national search for an experienced director**. An ideal candidate will have experience with leading audit practices in a variety of industries, a background in technology auditing or the use of IT in the audit process, knowledge of enterprise risk management strategies and processes, and excellent communication and collaboration skills. While prior experience in higher education would be beneficial, the greater necessity is a candidate with experience with best practices in internal audit. NSHE should seek candidates with multiple years of experience as a director or principle deputy in an organization of comparable scale and complexity (e.g., multiple operating units or institutions).

3. **Charge the new Director of Internal Audit to**:
   a. Develop a short and long-range staffing plan that expands the department's skills in information technology, operations, and compliance.
   b. Revise the risk based audit selection program to expand the drivers of risk and weight the materiality of the risk.
   c. Develop additional competencies in data analytics to identify risks, potential control weaknesses and detect frauds.
   d. Institute a regular meeting with business officers and controllers to discuss the efficacy of policies, cost of compliance and emerging risk areas.
   e. Pilot and incorporate as appropriate continuous auditing strategies.

4. **Develop an enterprise risk management strategy**. Appoint a team, including the new Director of Internal Audit, to take a comprehensive view of risk and develop an assessment and strategy for review by the Chancellor and the Board. The review should take into account current risk management strategies and programs in place at the institutions and propose appropriate structures and strategies to identify and manage financial, compliance, reputational, and operational risks.

Longer-term, the Director should consider building capacity to provide additional advisory services to the System Administration and institutions. Advisory services could include consultative support to process design and technology deployment projects to proactively improve control points or data mining and monitoring for electronic commerce transactions (e.g., procurement cards). To round out the expertise of the department, the Director should also consider contracting with third-party audit firms for discrete projects that require unique knowledge (e.g., health care related compliance issues or aspects of information technology).

*****

Implementing the recommended actions will position Internal Audit to address continuing and emerging areas of risk and provide more proactive and strategic advice to the Regents and NSHE management.   Thank you for the opportunity to contribute to this important initiative for the System.

DRAFT

Appendix 1 - List of Interviewees

NSHE

Scott Andersion, Acting Director, NSHE Internal Audit
Mary Kaye Bailey, Controller, CSN
Gerry Bomotti, Senior Vice President for Finance and Business, UNLV
Sandi Cardinal, Director of Internal Audit (Retired)
Patty Charlton, Senior Vice President for Finance and Administration, CSN
Larry Eardly, Vice Chancellor Budget and Finance
Tom Judy, Associate Vice President, UNR
Dan Klaich, Chancellor
Ron Knecht, Chair of Audit Committee, NSHE Board of Regents
Vic Redding, Vice Chancellor Finance and Administration
Richard Trachok, Vice Chairman, NSHE Board of Regents
Steve Zink, Vice Chancellor Information Technology
Ron Zurek, Vice President Administration and Finance, UNR

Other

Dan Heist, Director of Internal Audit, The Pennsylvania State University

UNIVERSITY INTERNAL AUDIT FUCNTIONS

February 2014

Prepared by **Goldstein & Associates**

Table of Contents

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Executive Summary

Context

The Institute of Internal Auditors defines internal auditing as "an independent, objective, assurance and consulting activity that adds value to and improves an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes".[1] The internal audit function at colleges and universities in the United States has undergone significant transformation in recent years, transitioning to a far more strategic and targeted partner at many institutions. This document presents a summary of leading practices across industries. It draws on articles, presentations and web sites discussing the evolve role of internal audit to highlight the skills, methods and approaches of leading internal audit practice. It contains examples drawn directly from these sources.

Best Practices

Internal Audit Direct Skills/Role
- Strong leaders and communicators
- Financial expertise
- Come from multiple career paths and perspectives
- Have context-based and adaptive understanding and skills
- Are familiar with information technology
- Have a sufficiently staffed audit function

Structure and Independence
- "To ensure transparency and thwart collusion and conflicts of interests, best practice indicates that the internal audit activity should have a dual reporting relationship. The CAE [chief audit executive] should report to executive management for establishing direction, support, and administrative interface; and to the organization's most senior oversight group — typically the audit committee — for validation, reinforcement, and accountability"[2]

Scope
"Today's audit committees must deal with complex and diverse issues and ever-increasing responsibilities. Over the years, the scope of internal auditing has continued to evolve and expand."[3] "Internal auditors have seen a remarkable shift from traditional financial programs and compliance work to strategic and operational assurance efforts"[4].These include:
- Oversight of risk: Internal auditors work with institutional risk in three main ways: identification, management, and ownership.
- Internal Controls: "Another concept inherent in the definition of internal audit is the issue of assessing the effectiveness of controls. Internal controls are the bane of many campus administrators. Oftentimes, internal controls are seen as a nuisance, and in the worst cases an impediment to doing the essential tasks of the institution. But when they are effective and focused on the proper risks, internal controls allow work to flow faster and more freely".[5]
- Reviewing compliance: "Ensures that organizations adhere to rules and regulations"[6]
- Help ensure efficiency and effectiveness
- Assist with improving institutional governance, including ethics and performance management
- Communicate findings and raise awareness
- Conduct process and operations reviews
- Fill other roles as needed, such as "consulting, assurance, and facilitation services" [7]

Approaches and Frameworks
- Risk-based audits are viewed as particularly leading edge

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[1] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[2] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[3] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf;
[4] 2011. The Institute of Internal Auditors. Making Internal Audit More Credible and Relevant. http://www.isaca.org/Groups/Professional-English/iso-iec-20000/GroupDocuments/Making_Internal_Audit_More_Credible_and_Relevant.pdf
[5] 2013. Michael Dannar and Tom Gorman. Internal Audits: Do Higher Ed Institutions Really Need Another Audit? http://nonprofitblog.bdo.com/index.php/2013/03/06/internal-audits-do-higher-education-institutions-really-need-another-audit/
[6] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[7] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf

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- o **"Changing trends impact the way an internal auditor assesses risk. Today's internal auditing has changed from a reactive, control-based form to one that is risk-based and proactive…**By focusing on effective enterprise risk management, the internal auditor not only offers remedies for current trouble areas, but also anticipates problems and plays an important role in protecting the organization from catastrophes or missed opportunities in the future. Internal auditors must be flexible to the changing tides of today's business environment. Evaluating risk in a rapidly changing world means that internal auditors have to stay abreast of global and work- place issues such as mergers and acquisitions, new computer systems, and electronic commerce…**Today, internal auditors work more closely than ever with their customers. By doing so, they can be more accurate in their recommendations and help the organization better adhere to its objectives**"[8].
  - o One increasingly popular approach is a comprehensive Enterprise Risk Management (ERM) approach
- Internal control-based frameworks also deal with risk. Those on the leading edge leverage the COSO framework, which starts "at the highest level of aggregation, the financial statements, then proceeds through a sequence of analyses that grow increasingly granular until the auditor ultimately assesses individual control activities"[9]

Assessing the Effectiveness of Internal Audit
- There are a variety of was in which to assess IA's effectiveness, including:
  - o Where the audit program places priorities
  - o Internal audit processes
  - o The way institutions identify critical areas
  - o The oversight responsibilities of the audit committee

Changing Practices
In the next seven years, we can expect to see:
- A deeper scope for IA that changes the way projects are staffed, the way we measure progress, and the way employees differentiate themselves
- A shift in needed skills. Skills must diversify. Top skills will be analytical and critical thinking, followed by communications skills, followed by risk management assurance, and then IT skills and data mining capability. Also, deep industry capability and business understanding in addition to finances[10]
- Efforts to improve IA's ability and efforts to communicate with stakeholders
- A less siloed approach to department management and reporting, with more IA groups reporting to the Chief Executive
- The rise of technology and data-driven work

[8] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[9] 2009. Michael Ramos. Risk-Based Audit Best Practices. http://www.journalofaccountancy.com/issues/2009/dec/20091789.htm
[10] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/

Best Practices

Context

- "High-profile risk and compliance incidents at higher education institutions around the United States have reinvigorated and sharpened the focus on audit committee priorities".[11]
- "Colleges and universities are striving to improve transparency into their services, operations and finances for stakeholders and the public. There also is growing interest among institutions of higher education to enhance risk management through better controls over their many systems, processes and procedures, and to promote the importance of accountability among all professionals. Within these organizations, internal audit is playing a key and often leading role in working with administrators, management and boards to establish stronger corporate governance and internal controls and derive the many resulting benefits in terms of organizational performance and cost efficiencies". [12]
    - "This is not an easy undertaking within higher education. Unlike U.S. public companies, for example, colleges and universities do not have a regulatory requirement like the Sarbanes-Oxley Act that mandates such changes, so there is no direct incentive to implement them. However, improved governance and controls benefit all organizations, whether they are public, private, edu- cational or not-for-profit". [13]

Skills/Role

Strong Leaders and Communicators

- "To fulfill all their roles effectively, internal auditors must be excellent communicators who listen attentively, speak effectively, and write clearly"[14].
    - "Leading edge institutions recognize the importance of recruiting employees for their internal audit departments who demonstrate strong leadership and communication skills. Notably, skills that staff members develop while working within the internal audit function enhance their overall value, and many institutions move them from internal audit into other leadership roles in the organization. This puts increased pressure on audit directors to restart the hiring cycle to find new talent".[15]

Financial Expertise

- Include "at least one financial expert on the audit committee Institutions should consider the following in defining financial expertise:
    - familiarity with estimates, accruals, and reserves relevant to higher education
    - longevity and experience with a given institution can be considered 'other relevant experience'
    - Colleges and universities should also consider rotating the financial expert and begin planning for the process and cost of recruiting, training, and retaining financial expertise."[16]

Multiple Career Paths and Perspectives

- "Internal auditors bring a variety of skills to the organization. Their education and expertise differ broadly. They come from diverse areas such as engineering, operations, finance, and information technology"[17].
    - Therefore, consider "involving different stakeholders (students, faculty, administrators, parents, donors, grantors, and others) in the risk assessment process, protection of personally identifiable information, affiliations with for-profit entities, and the handling of whistleblower concerns"[18]

Context-Based and Adaptive Understanding and Skills

- "The most valuable and effective internal auditors anticipate and stay abreast of business trends and continually update their knowledge to stay on top of key issues. They are proactive, responsive, and reactive"[19].
- "Sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud...Sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are

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[11] 2013. KPMG. The Evolving Higher Education Audit Committee Agenda. http://www.kpmginstitutes.com/aci/insights/2013/pdf/higher-education-ac-agenda-2013-web.pdf?utm_source=page&utm_medium=/aci/insights/2013/evolving-higher-education-ac-agenda-
2013.aspx&utm_campaign=download
[12] 2008. protivi. Internal Auditing in Higher Education. http://www.protiviti.com/en-US/Documents/Resource-Guides/ia_higher_education.pdf
[13] 2008. protivi. Internal Auditing in Higher Education. http://www.protiviti.com/en-US/Documents/Resource-Guides/ia_higher_education.pdf
[14] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf;
[15] 2008. protivi. Internal Auditing in Higher Education. http://www.protiviti.com/en-US/Documents/Resource-Guides/ia_higher_education.pdf
[16] 2003. NACUBO. Checklist for Higher Education.
http://webcache.googleusercontent.com/search?q=cache:EdO3hFYYLjMJ:www.nacubo.org/documents/business_topics/SOXChecklist3.7%2011120
03.doc+&cd=3&hl=en&ct=clnk&gl=us
[17] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf;
[18] 2013. KPMG. The Evolving Higher Education Audit Committee Agenda. http://www.kpmginstitutes.com/aci/insights/2013/pdf/higher-education-ac-agenda-2013-web.pdf?utm_source=page&utm_medium=/aci/insights/2013/evolving-higher-education-ac-agenda-;
[19] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf;

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expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing"[20]

- "Internal auditors are well-disciplined in their craft and subscribe to a professional code of ethics. They are diverse and innovative. They are committed to growing and enhancing their skills. They are continually on the lookout for emerging risks and trends in the profession. They are good thinkers…Grounded in professionalism, integrity, and efficiency…They are explorers, reporters, and analysts. They discover, interpret, and question".[21]

Familiarity with Information Technology
- "Have extensive knowledge of computer systems and the Internet, and work to mitigate risks posed to the organization by technology and electronic commerce".[22]

Sufficiently Staffed
- "The Institute of Internal Auditors (IIA) believes that an organization is best served by a fully resourced and professionally competent internal audit staff that provides value-added services critical to efficient and effective organizational management".[23]

Independence

"The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".[24] "This is a subtle, yet important, distinction. Independence is an attribute of the audit function; whereas objectivity is an attribute of the individual auditor. The attribute of the internal audit function relates to its organizational independence. At the most fundamental level, independence is the ability to conduct internal audit activities without undue influence or control. Objectivity relates to the individual auditor. Standard 1120 describes objectivity of the individual auditors and states that individual auditors achieve this objectivity when they 'have an impartial, unbiased attitude and avoid any conflict of interest'."[25]

Institute of Internal Auditors
- "To ensure transparency and thwart collusion and conflicts of interests, best practice indicates that the internal audit activity should have a dual reporting relationship. The CAE [chief audit executive] should report to executive management for establishing direction, support, and administrative interface; and to the organization's most senior oversight group — typically the audit committee — for validation, reinforcement, and accountability"[26]
  - "To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship…The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity"[27].
  - "Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:
    - Approving the internal audit charter; Approving the risk based internal audit plan; Approving the internal audit budget and resource plan; Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters; Approving decisions regarding the appointment and removal of the chief audit executive; Approving the remuneration of the chief audit executive; and Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations"[28].
- "The internal audit activity must be free from interference in determining the scope of internal auditing,

[20] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[21] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf;
[22] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf;
[23] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[24] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[25] http://70.32.97.65/resources/publications/Compliance-and-Internal-Audit-A-Dangerous-Comb.pdf
[26] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[27] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[28] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf

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performing work, and communicating results" [29].

- "The audit committee of the board of directors and the internal auditors are interdependent and should be mutually accessible, with the internal auditors providing objective opinions, information, support, and education to the audit committee; and the audit committee providing validation and oversight to the internal auditors. The internal auditors keep the audit committee informed and up to date on the state of the organization in regard to risk, control, governance, and the coordination and effectiveness of monitoring activities"[30]

NACUBO:
- "Audit committee oversight is critical to ensure the independence of the audit decisions. The audit engagement letter should be addressed to the audit committee rather than internal management…
- …Institutions that do not have an audit committee should assign the audit function to another committee of the board of trustees, for example, the finance committee, or to the board as a whole. Institutions that assign audit committee functions to another committee should add "audit" to the committee title…
    o …Independence of audit committee members is important. Management representatives should not be voting members of the committee…
    o …A good practice would be the establishment of confidential complaint mechanisms for employees; for example, a hot line, anonymous e-mail/voicemail, secure complaint boxes, or extending existing employee grievance processes or communication channels to the institution's internal auditors. The audit committee should review the nature and disposition of reported matters…
    o …The audit committee should have all necessary authority contained in its charter…
    o …The charter should also specify that appropriate funding be available for the audit committee"[31]

Scope

*"Today's audit committees must deal with complex and diverse issues and ever-increasing responsibilities. Over the years, the scope of internal auditing has continued to evolve and expand."[32] "**Internal auditors have seen a remarkable shift from traditional financial programs and compliance work to strategic and operational assurance efforts"[33]**. "As a result of laws and regulations…audit committees are being asked to monitor such areas as: management's assessment of internal controls over financial reporting; ethical complaint hotlines; enterprise-wide risk management; and governance reviews, to name a few"[34].*

"Sitting on the right side of management, modern-day internal auditors are consulted on all aspects of the organization and must be prepared for just about anything. They are coaches, internal and external stakeholder advocates, risk managers, controls experts, efficiency specialists, and problem-solving partners. They are the organization's safety net…Internal auditors are, to a great extent, key to an organization's success in today's business world. They are involved in reviewing an organization's processes, operations, and goals. They provide objective, independent, professional advice to all levels of management and pave the path toward continuous improvement."[35] "Auditors also are expected to play a greater advisory role as a catalyst for business improvement and to sharpen organizational focus on emerging risk"[36]. The comprehensive scope of their responsibilities provides them with a broad perspective on the organization. "And that, in turn, makes them a valuable resource to executive management and the board of directors in accomplishing overall goals and objectives, as well as strengthening internal control and governance"[37].

Oversight of Risk
Internal auditors work with institutional risk in three main ways: identification, management, and ownership.
- Risk Identification

[29] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[30] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
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[32] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[33] 2011. The Institute of Internal Auditors. Making Internal Audit More Credible and Relevant. http://www.isaca.org/Groups/Professional-English/iso-iec-20000/GroupDocuments/Making_Internal_Audit_More_Credible_and_Relevant.pdf
[34] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[35] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[36] 2011. The Institute of Internal Auditors. Making Internal Audit More Credible and Relevant. http://www.isaca.org/Groups/Professional-English/iso-iec-20000/GroupDocuments/Making_Internal_Audit_More_Credible_and_Relevant.pdf
[37] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf

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- o "A systematic process, for assessing and integrating professional judgments about probable adverse conditions or events... It's the internal auditor's job to identify all auditable activities and relevant risk factors and to assess their significance" [38]
- o "The internal auditors' broad understanding of the organization and its culture prepares them for effectively monitoring risks associated with new business lines; mergers, acquisitions, joint ventures and other partnerships; new systems deployments; restructuring; management estimates, budgets, and forecasts; environmental issues; and regulatory compliance" [39]
- o "The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:
  - ▪ Achievement of the organization's strategic objectives; Reliability and integrity of financial and operational information; Effectiveness and efficiency of operations; Safeguarding of assets; and compliance with laws, regulations, policies, procedures, and contracts"[40]; fraud; technology/cybersecurity;
- Risk Management
  - o "The internal audit activity provides assurance to management and the audit committee that risks to the organization are understood and managed appropriately" [41]. IA protects "the organization against both traditional and emerging risks" [42] and provides "consultation about how opportunities and vulnerabilities can be balanced" [43]. The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. [44]
  - o Recommending measures to mitigate risks
    - ▪ "Each department or area that has some responsibility for a high risk area is required to develop a management plan to mitigate the risk to an acceptable level…The ownership of those plans remains with the responsible area. Management plans address the seven components of the Federal Sentencing Guidelines to include: adequate procedures, training, reporting, monitoring and responsible parties" [45].
  - o Determining "how the organization manages fraud risk…
  - o …During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks…
  - o …Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes" [46]
  - o Assist with managing business model risks, including those to the reputation of the institution. This includes management and communication of issues that could damage the institution's standing in the eyes of its peers and community, and the particular risks brought about by shifting business models (e.g., MOOCs)[47]
- Risk Ownership
  - o "After the high risk list has been approved by the Executive Compliance Committee, each high risk area is assigned to an Institutional Risk Owner (IRO)…Usually a vice president for whom the authority to take action is most appropriate"[48]
  - o "When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks"[49].

[38] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[39] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board.
https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[40] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards).
https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[41] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board.
https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
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[43] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board.
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[44] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board.
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[45] 2009. College and University Auditor. Volume 52, Number 3.
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[46] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards).
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[48] 2009. College and University Auditor. Volume 52, Number 3.
http://www.acua.org/ACUA_Resources/Auditor/CandU_Journal_Spring_2009_Final.pdf
[49] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards).
https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf

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Internal Controls

"Another concept inherent in the definition of internal audit is the issue of assessing the effectiveness of controls. Internal controls are the bane of many campus administrators. Oftentimes, internal controls are seen as a nuisance, and in the worst cases an impediment to doing the essential tasks of the institution. But when they are effective and focused on the proper risks, internal controls allow work to flow faster and more freely".[50]

- "By reviewing the means used by the organization to protect its assets, internal auditors can determine whether appropriate safeguards are in place. They must be able to evaluate the procedures used to safeguard assets from different types of losses like theft, fire, activities that are illegal or improper, and exposure to elements…
- …Controls refer to ethical values, consistency in meeting goals, performance measures, and much more. Everybody within the organization — from the mailroom to the boardroom — plays an important role in internal control. Internal control is at the very center of the internal auditor's world. It is also integral to effective organizational governance, and thereby is critical to management and the board…
- …The internal auditors evaluate control efficiency and effectiveness and determine whether the controls in place are adequate to mitigate the risks that threaten or have the potential for threatening the organization"[51]
- "The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement…in responding to risks within the organization's governance, operations, and information systems…
- …Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes" [52]
- "Section 404 of the Sarbanes-Oxley Act requires an annual assessment of internal controls to ensure financial statement accuracy. The internal auditors fill this need by evaluating the adequacy and effectiveness of controls throughout the organization.
    - Their work includes an examination of the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, and the ways in which the organization safeguards assets and complies with laws, regulations, and contracts…Assets aren't just tangible items such as computers, printers, and copiers. Employees and information are also important assets to be safeguarded. A high turnover in staff results in loss of human assets: good, educated employees and the cost of time and training for new hires. Information, knowledge management, and information technology are just as imperative. And, as technology continues to develop, so do challenges in safe-guarding it"[53].

Reviewing Compliance[54]

- "Ensures that organizations adhere to rules and regulations…In reviewing compliance, the realm of responsibility over which internal auditors preside is large...Specifically, internal auditors are responsible for reviewing objectives, providing insight into the impact that noncompliance would have on an organization, and informing senior management of indications of significant noncompliance" [55].
- "It is commonly known that compliance requirements in higher education do not easily fall under one functional area. Rather, because higher education compliance requirements originate from so many sources, they cut across many functional areas…such as…research and federally sponsored programs, NCAA athletics, environmental and safety compliance, accounting and financial reporting (IRS, GAAP and GASB); and regulations that were not initially intended for higher education, including the Gramm-Leach-Bliley Act and Red Flags Rules. Each compliance area has its own set of complex and ever-changing requirements and no one person can be expected to stay abreast of the latest developments" "[56].
- "Compliance issues are always changing. As organizations alter policies, internal auditors have to be prepared to deal with the onset of new challenges. They not only need to identify areas that do not comply with policies and guidelines, but also see that objectives set by management adhere to the organi- zation's overall mission, culture, and climate" [57]

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[50] 2013. Michael Dannar and Tom Gorman. Internal Audits: Do Higher Ed Institutions Really Need Another Audit? http://nonprofitblog.bdo.com/index.php/2013/03/06/internal-audits-do-higher-education-institutions-really-need-another-audit/
[51] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[52] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[53] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[54] http://www.higheredcompliance.org/wp-content/uploads/2012/05/Compliance-and-Internal-Audit-A-Dangerous-Comb.pdf
  - Combining the internal audit and the compliance/ethics functions is an increasingly common practice, but can present concerns. These concerns include not only the expected auditor independence and objectivity issues but arguments that the combination weakens the effectiveness of compliance and ethics as well.
[55] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[56] 2009. College and University Auditor. Volume 52, Number 3. http://www.acua.org/ACUA_Resources/Auditor/CandU_Journal_Spring_2009_Final.pdf
[57] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf

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Efficiency
- "Through the risk assessment process, and by following a systematic and disciplined approach to their work, internal auditors can compare your operations to best-in-class organizations—whether they are educational institutions or corporate entities. Take, for example, a large, decentralized research institution, which is likely to have dozens of departments with seemingly duplicative business processes. An internal audit can generate efficiency by allowing those charged with governance to obtain an objective assessment of the institution's activity, while also assessing the effectiveness of its controls. This may then allow the institution to take the next step, like a service-center approach, drawing upon the most efficient resources to "do more with less" or perhaps to do more with the same"[58]
- "Suggest ways for reducing costs, enhancing revenues…improving profits…assessing quality, economy, and efficiency"[59]
- "Defining return on investment…[establish] the value and ROI that a strong internal audit function provides them in terms of better governance and improved risk identification and mitigation"[60]

Governance
- Recommendations for assessing and strengthening corporate governance[61]
  - "The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives…
- …Promoting appropriate ethics and values within the organization…The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities…
- …Ensuring effective organizational performance management and accountability"[62]

Communicating Findings and Raising Awareness
- "An integral part of the management team, internal auditors furnish top management with analyses, appraisals, counsel, and information on the activities they review"[63]
- "Communicating risk and control information to appropriate areas of the organization…
- …Coordinating the activities of and communicating information among the board, external and internal auditors, and management…
- …The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board"[64]
- "Based on their findings, the internal auditors can provide assurance to management, so that the CEO and Chief Financial Officer can certify the accuracy of the financial statements with confidence"[65]
- Help people understand the role of internal audit
  - Deliver annual general compliance training for all employees in areas such as: Ethics, Fraud, Sexual harassment, Information security, Campus safety[66]
- "Confirming information is a critical step in the audit process, and if compromised, diminishes the value of the audit. It is the responsibility of the internal auditors to keep their organizations informed of all discoveries and research observations made during the audit process. They must be careful to keep the lines of communication open with those in the organization who are directly involved in the audit…As internal auditors research and gather information, they must make absolutely sure it is factual and complete. They must also remain aware that senior management and the audit committee are interested in receiving constant feedback"[67]

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[58] 2013. Michael Dannar and Tom Gorman. Internal Audits: Do Higher Ed Institutions Really Need Another Audit? http://nonprofitblog.bdo.com/index.php/2013/03/06/internal-audits-do-higher-education-institutions-really-need-another-audit/
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[62] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[63] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
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[66] 2009. College and University Auditor. Volume 52, Number 3. http://www.acua.org/ACUA_Resources/Auditor/CandU_Journal_Spring_2009_Final.pdf
[67] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf

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Process and Operations Review

- "Provide counsel for improving…processes and procedures… review operations closely, confirming that the correct protocol is being followed and the goals are being met…make objective assessments of operations and share ideas for best practices….The internal auditors must be well versed in the objectives of their organization and have the ability to examine and analyze to make sure operations are effective" [68]

Other: Assorted

- "Evaluating emerging technologies, analyzing opportunities…New dimensions include product support, advisory and consulting engagements, active involvement in the process of restructuring. Internal auditors must be accomplished in anticipating emerging issues and creating solutions… Deliver consulting, assurance, and facilitation services"[69]

Approaches and Frameworks

Risk-Based Audit Best Practices

"The risk-based approach toward auditing is mandated by The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* and is the only way to ensure that the priorities of the internal audit activity are consistent with the organization's goals. Such an approach provides internal auditors with the opportunity to become intimately knowledgeable of the organization's risk appetite and tolerance—allowing them to target high-impact areas, appropriately allocate scarce resources, and be well positioned to advise management on vulnerabilities and corrective actions

Implementing a risk-based approach can uncover potential organizational risks that may otherwise go undetected and provide management with a critical tool for gauging and assessing enterprise-wide risk. This allows management to allocate the greatest amount of resources to the areas that will yield the highest return on investment and ensures that the organization has dedicated audit coverage for high-risk areas"[70].

"It is critical, therefore, that internal auditors apply risk-based audit approaches to the organization's internal control system and provide comprehensive reports to the audit committee" [71]. "The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls"[72].

"Changing trends impact the way an internal auditor assesses risk. Today's internal auditing has changed from a reactive, control-based form to one that is risk-based and proactive. This means that greater emphasis is placed on the internal auditor's role in mitigating risk. By focusing on effective enterprise risk management, the internal auditor not only offers remedies for current trouble areas, but also anticipates problems and plays an important role in protecting the organization from catastrophes or missed opportunities in the future. Internal auditors must be flexible to the changing tides of today's business environment. Evaluating risk in a rapidly changing world means that internal auditors have to stay abreast of global and work- place issues such as mergers and acquisitions, new computer systems, and electronic commerce…**Today, internal auditors work more closely than ever with their customers. By doing so, they can be more accurate in their recommendations and help the organization better adhere to its objectives**" [73].

"The aim of the risk assessment auditing standards below is to improve the quality and effectiveness of audits by substantially changing audit practice…Previous auditing standards allowed auditors, at their discretion, to simply designate the client's internal control as a high risk, which allowed them to greatly reduce the effort required to understand and document internal control. The risk assessment standards prohibit the auditor from "defaulting to the maximum" control risk"[74].

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[68] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[69] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[70] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[71] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board. https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[72] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[73] N.D. The Institute of Internal Auditors. All in a Day's Work. https://na.theiia.org/about-ia/PublicDocuments/06262_All_In_A_Days_Work-Rev.pdf
[74] 2009. Michael Ramos. Risk-Based Audit Best Practices. http://www.journalofaccountancy.com/issues/2009/dec/20091789.htm

- "On *all* audits the auditor must evaluate the design and implementation of internal control to properly identify and assess risk."[75]
- "Instead of considering how to update the prior year's audit, make identifying changes in the organization your first priority
- The broad scope of the risk assessment standards made it difficult for audit firms to optimize implementation of the standards by developing firm policies and practice aids. Develop and own a unique institutional approach to gain more in-depth knowledge of the standards and institution to truly optimize processes and maintain quality"[76]
- "The successful implementations had a few key elements, including support from the top (board, president, etc.) as well as active involvement of their internal audit resources…institutions leveraged the risk assessment and risk identification processes inherent in any well-run internal audit shop to a broader audience and perhaps broader definition of risk"[77]
- "Perform a university-wide risk assessment by providing the President, Vice- Presidents and senior administrators with a comprehensive list of higher education areas. They score each risk for the impact it may have and probability of the risk occurring. This list is very similar to the list in the ACUA Risk Dictionary. We then assign a ranking to each item based upon the score given and determine which items are of highest risk to the institution. The final list is usually around ten to twelve areas and is approved by the Executive Compliance Committee. It is important to note that we will "drill down" from the executive level risks to the operational level in order to ensure that all risks identified have been addressed from the "C suite" to the cubicles"[78]

"Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- Organizational objectives support and align with the organization's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organization's risk appetite; and ·
- Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities
- The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness
- Risk management processes are monitored through ongoing management activities, separate evaluations, or both".[79]

Enterprise Risk Management (ERM) approach[80]
"Over the past several years, enterprise risk management, or ERM (also referred to as governance, risk and compliance), has been a hot topic on campuses across the country. Initially spurred to action by board members who sat on corporate boards of directors, colleges and universities quickly saw the value of applying the concepts of ERM to their own operations"[81]. "ERM comprises everything in IA top 10 concerns: from student life to minors on campus. It's about how to monitor the monitoring. ERM can pose the greatest challenge to the audit committee, aside from oversight of financial reporting and internal controls"[82].
"Several trustees with education, other not-for- profit, and for-profit or public board-level experience emphasized the importance of maintaining focus on the institution's core business objectives when forming the audit committee agenda…Beyond the core audit committee responsibility of oversight of financial reporting and internal controls, and within the evolving landscape of higher education, audit committees should consider their role in oversight for these areas:
- Enterprise risk management – While general strategy and risk discussions are for the full board to consider, oversight of the ERM process—the systems and safeguards to understand and manage risk—often lies with the audit committee.

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[75] 2009. Michael Ramos. Risk-Based Audit Best Practices. http://www.journalofaccountancy.com/issues/2009/dec/20091789.htm
[76] 2009. Michael Ramos. Risk-Based Audit Best Practices. http://www.journalofaccountancy.com/issues/2009/dec/20091789.htm
[77] 2013. Michael Dannar and Tom Gorman. Internal Audits: Do Higher Ed Institutions Really Need Another Audit? http://nonprofitblog.bdo.com/index.php/2013/03/06/internal-audits-do-higher-education-institutions-really-need-another-audit/
[78] 2009. College and University Auditor. Volume 52, Number 3. http://www.acua.org/ACUA_Resources/Auditor/CandU_Journal_Spring_2009_Final.pdf
[79] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards). https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf
[80] This is not to say that internal audit always becomes responsible for the ERM project, for, in fact, in many cases they are not the primary owner.
[81] 2013. Michael Dannar and Tom Gorman. Internal Audits: Do Higher Ed Institutions Really Need Another Audit? http://nonprofitblog.bdo.com/index.php/2013/03/06/internal-audits-do-higher-education-institutions-really-need-another-audit/
[82] 2013. KPMG. The Evolving Higher Education Audit Committee Agenda. http://www.kpmginstitutes.com/aci/insights/2013/pdf/higher-education-ac-agenda-2013-web.pdf?utm_source=page&utm_medium=/aci/insights/2013/evolving-higher-education-ac-agenda-2013.aspx&utm_campaign=download

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- Regulatory compliance – Institutions operate within a myriad of increasingly complex requirements including those associated with federal funding, student loan programs, significant grants, clinical trials and accreditation and taxing authorities. Consideration of the likelihood and magnitude of potential noncompliance and the controls in place to mitigate these risks is an important component of ERM.
- Conflicts of interest – In a university setting, where stakeholders are numerous and not always aligned in their objectives, the audit committee should be particularly diligent in understanding and managing potential conflicts of interest. The Association of Governing Boards of Universities and Colleges' Statement on Conflict of Interest suggests that "compelling benefit to the institution" is the appropriate standard for determining whether a board member's conflict of interest is permissible. Under what circumstances will your institution accept a conflict of interest and is there a common understanding and consistent application of this policy?
- Crisis readiness – The audit committee should be fully informed about the school's crisis readiness plans—from emergency planning to internal and external communication. Also, how has your institution prepared for legal ramifications and potential liability that might result from a crisis?
- Global activities – Does your institution have overseas campuses, affiliations, or investments? Have all potential risks been considered in moving forward with global activities, particularly in countries in which you have not previously had a presence?
- Partnerships and alliances – What are critical touch points to institutions beyond your own? What opportunities exist for creating value across traditional institutional boundaries with other higher education, research and health-care organizations, student-run enterprises, the larger business community, and government organizations? How formalized should partnerships and alliances be? What are the potential risks of such arrangements, and how are they being managed?
- Technology change – Protection of personally identifiable information and maintenance of robust cybersecurity are colliding with the ubiquitous sharing of information through social media and increasingly open, collaborative and visible online learning. Does everyone in your institution, including students, faculty and administrators, understand their rights and responsibilities in using e-mail, course software, and other data stored on the school network or cloud? Is ownership of intellectual property clear? Are clear institutional protocols regarding use, storage, and sharing of data in place?
- Protecting the brand and institutional viability – Can your institution weather a high-profile setback to its reputation? Does it have the agility to sustain a substantial shift in tuition, grants or fundraising? Although the audit committee's primary objective is overseeing financial reporting and internal controls, the unique perspective of the audit committee may be valuable as institutions seek answers to broader questions of long-term institutional strength and viability"[83]

Control-Based Framework from the Committee of Sponsoring Organizations (COSO)

"Identifying, designing, and maintaining controls and procedures that safeguard assets and minimize risk is sound business practice. A good business practice would be to start planning how an internal control assessment might be conducted. A few institutions have started doing risk assessments and documenting key financial processes. The audit committee should consider independence issues if contemplating using the external auditor for this review function. For reference, institutions can obtain a copy of the Committee of Sponsoring Organizations (COSO) model of an internal control framework. The COSO model is considered the most widely accepted model for controls. Institutions with internal audit departments should consider using them to periodically report on internal controls to the audit committee in addition to reporting to management. These activities should be coordinated with the risk assessment and internal control initiatives described above.

The results of the internal control assessment should be tested to ensure compliance. A positive assertion on controls would require a large sustained effort and would require the external auditor to perform an attestation on internal controls, which would be expensive and time consuming. NACUBO does not recommend external auditor attestation or audit of internal controls. An alternative would be for management to provide the assertions and testing without the external audit attestation".[84]

"The key to implementing the internal control evaluation requirement is "the COSO process." The auditor starts at the highest level of aggregation, the financial statements, then proceeds through a sequence of analyses that grow increasingly granular until the auditor ultimately assesses individual control activities"[85]. In an effective internal control system, the following five components work to support the achievement of an institution's mission, strategies, and related business objectives:

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[83] 2013. KPMG. The Evolving Higher Education Audit Committee Agenda. http://www.kpmginstitutes.com/aci/insights/2013/pdf/higher-education-ac-agenda-2013-web.pdf?utm_source=page&utm_medium=/aci/insights/2013/evolving-higher-education-ac-agenda-2013.aspx&utm_campaign=download
[84] 2003. NACUBO. Checklist for Higher Education. http://webcache.googleusercontent.com/search?q=cache:EdO3hFYYLjMJ:www.nacubo.org/documents/business_topics/SOXChecklist3.7%2011200003.doc+&cd=3&hl=en&ct=clnk&gl=us
[85] 2009. Michael Ramos. Risk-Based Audit Best Practices. http://www.journalofaccountancy.com/issues/2009/dec/20091789.htm

1. Control environment, which establishes the foundation for the internal control system by providing fundamental discipline and structure;
2. Risk assessment, which involves the identification and analysis by management—not the internal auditor—of relevant risks to achieving predetermined objectives;
3. Control activities, or the policies, procedures, and practices that ensure management objectives are achieved and risk mitigation strategies are carried out;
4. Information and communication, a component that supports all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out their duties; and
5. Monitoring, which covers the external oversight of internal controls by management or other parties outside the process, or the application of independent methodologies, such as customized procedures or standard checklists, by employees within a process"[86]

Two additional control risk areas:
6. "Period-end financial reporting, which involves the process by which financial statements are prepared internally in accordance with accounting principles generally accepted in the United States of America; and
7. Budgeting, which includes the process in place through which management and those charged with governance use budgetary controls to review financial statement data"[87]

Determining Effectiveness of Internal Audit

"ISO 9001 states: 'An audit programme shall be planned, taking into consideration the status and importance of the processes and areas to be audited, as well as the results of previous audits.' This is intended to focus the internal audit programme on those processes and areas where past history indicates that problems have occurred, or where problems are likely to occur or be ongoing. These problems may result from issues such as human factors, process capability, changing customer requirements and changes in the work environment. The processes with high levels of risk of nonconformities should have priority in the audit programme. Special attention should be given to processes where the high level of risk is influenced by:

- severe consequences of failure on process capability
- customer dissatisfaction
- noncompliance with statutory or regulatory requirements"[88]

"When examining internal audit processes, third-party auditors should evaluate:
- the competencies that are needed for and applied to the audit
- the risk analysis performed by the organization in planning internal audits
- the degree of management involvement in the internal audit process
- the guidance provided by ISO 19011 (note that ISO 9001 does not require the organization to use ISO 19011)
- the way audit outcomes are used to evaluate the effectiveness of the quality management system and to identify opportunities for improvements.

A third-party auditor needs to evaluate the organization's approach to identifying critical areas, as well as other parameters. For example, has the organization identified processes that:
- are critical to product quality
- need special attention
- need to be validated
- need qualified personnel
- need close monitoring of parameters
- occur across multiple locations or are labour intensive" [89]
- "Auditors should also ask if the organization has established process performance indicators that define effectiveness measures, and if these measures align with the organization's overall goals and objectives. After identifying these elements an auditor needs to examine whether the organization uses such information when establishing audit frequency"[90]

"As part of its oversight responsibilities, the audit committee should:
- Review and concur the chief audit executive (CAE) appointment, replacement, reassignment, and dismissal.
- Review/approve the internal audit charter and ensure its compatibility with that of the audit committee.
- Review the audit plan and any significant changes.

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[86] 2009. Crowe Horwath & NACUBO. Risk Assessment Standards Toolkit. http://www.nacubo.org/Documents/business_topics/Risk_Assessment_Toolkit.pdf;
[87] 2009. Crowe Horwath & NACUBO. Risk Assessment Standards Toolkit. http://www.nacubo.org/Documents/business_topics/Risk_Assessment_Toolkit.pdf;
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[89] Copyright 2013. IRCA. Internal audit effectiveness. http://www.irca.org/en-gb/resources/APG-papers/audit-effectiveness/;
[90] Copyright 2013. IRCA. Internal audit effectiveness. http://www.irca.org/en-gb/resources/APG-papers/audit-effectiveness/

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- Ensure internal auditor neutrality and objectivity.
- Review the internal audit department's budget and staffing.
- Encourage internal auditor certification and other professional development.
- Meet privately with the CAE
- Receive reports from the CAE on audit findings and information on technological advances and trends.
- Review internal auditing's compliance with the IIA's *Standards*"[91]
- Own "the process for understanding risks as well as identifying who in the faculty, staff or administration must own specific risks and how they should be reported…
- …Lead the organization by example, setting the tone-at-the-top in their ongoing engagement, agenda priorities, and interaction with management"[92]
- "Help focus institutional compliance activities and provides the level of assurance boards of trustees expect"[93]

Changing Practices

"Thought leaders in the business community forecast more changes and increased organizational risks"[94]. But despite these differences, and an array of other anticipated changes, many audit practices may still remain the same…Auditors will still conduct their work according to The IIA's standards and their professional judgment…[They] will still be assessing the effectiveness of controls and risk management, the efficiency of processes, and the safeguarding of assets"[95]. However, "internal audit departments are in flux at many organizations, rapidly expanding their portfolio of services and widening their audience of clients in the process"[96]. Some of the major areas of anticipated change include:

Scope

IA may grow deeper rather than broader[97]. *"In the coming years, auditors will need to be equipped with a broader assortment of tools gained through varied experiences and training that expands their ability to connect new ideas to the audit process…This will change the way individual projects and the audit function itself are staffed…the way that progress is measured, and the way that people can differentiate themselves within an organization"*[98].

- "Increasing litigation, legislation, and regulations will carry important compliance implications.
- Information security management for critical infrastructure areas such as financial services, transportation, telecommunication, defense, utilities, and fuel will continue to require individual and collective business commitment, planning, and intervention.
- Continuing globalization will increase the complexity of principles, regulations, and the cultures in which organizations operate.
- Ever-growing competition will put even more pressure on organizations to increase productivity"[99]
- "One aspect of internal audit that's virtually certain to change — and keep changing — is its attention to risk... We will likely see less emphasis on controls and more emphasis on risk management and governance…Too much focus on controls can lead practitioners to lose sight of the fact that they're a means, not an end…controls are designed to mitigate risk, so they need to be kept in perspective...internal audit must strike a better balance between a focus on controls and a focus on risk management and corporate governance…
- …One specific scope modification: internal audit's role in third-party, or vendor, risk management. To date, outsourcing has focused on services; now, it's shifting to technology, which brings with it the loss of some control — around, say, the security of key data. Outsourcing risks are changing so dramatically that internal audit is being forced to do more around vendor risk management…
- …One of the expectations of boards in the future will be for internal audit to help avoid surprises — the idea of being able to identify emerging risks, or to see around the corner, so to speak…provide perspective management hasn't thought of…
- …There may be "a shift toward cross-functional assurance. Thought leaders say that internal audit is poised to play a key role in this area, and that it will require evolution in the relationship between internal audit and ethics and compliance…It's important for internal audit to not just be a part of those integrated activities, but to actually lead them. Compliance departments are growing dramatically…as organizations realize that their risk

[91] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board.
https://na.theiia.org/awareness/PublicDocuments/Internal_Auditing-Adding_Value_Across_the_Board.pdf
[92] 2013. KPMG. The Evolving Higher Education Audit Committee Agenda. http://www.kpmginstitutes.com/aci/insights/2013/pdf/higher-education-ac-agenda-2013-web.pdf?utm_source=page&utm_medium=/aci/insights/2013/evolving-higher-education-ac-agenda-2013.aspx&utm_campaign=download
[93] 2013. Michael Dannar and Tom Gorman. Internal Audits: Do Higher Ed Institutions Really Need Another Audit?
http://nonprofitblog.bdo.com/index.php/2013/03/06/internal-audits-do-higher-education-institutions-really-need-another-audit/
[94] N.D. The Institute of Internal Auditors. Internal Auditing: Adding Value Across the Board.
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[95] 2014. Russell Jackson. Tomorrow's Best Practices. https://chapters.theiia.org/albany/Documents/0114Newsletter.pdf
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[97] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[98] 2014. Russell Jackson. Tomorrow's Best Practices. https://chapters.theiia.org/albany/Documents/0114Newsletter.pdf
[99] 2012. The Institute of Internal Auditors. International Standards for the Professional Practice of Internal Auditing (Standards).
https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf;

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profiles are changing quickly…If internal audit doesn't integrate into that landscape and add value beyond what compliance does…there's a risk of internal audit becoming less relevant and compliance rising in relevance"[100]

Skills:

- "Expect internal audit competencies to look different in 2020…As the focus on internal audit's role with risk mitigation continues to expand…the more typical internal auditor coming from the operations side of the business. The profession will look for people who understand the business and know how to mitigate risk, who understand the distinction between efficiency and effectiveness, and who know how the supply chain operates…
- …Audit department heads will need to focus on the skill sets their shops need to be effective…As the world grows more global and technological, relying on the same old skill set will mean IA functions will be devalued"[101]
  - o Skills must diversify. Top skills will be analytical and critical thinking, followed by communications skills, followed by risk management assurance, and then IT skills and data mining capability. Also, deep industry capability and business understanding in addition to finances[102]
- "CAEs will be leaders of teams…where the teams are specialists that bring to the table skills and experiences the CAE does not have. This requires the CAE to exhibit more CEO capabilities than today, where many CAEs are simply more experienced audit leaders" [103]
- Millennials are an increasing segment of the workforce. "They approach work differently than their older colleagues, statistically at least, and expect to communicate using advanced technology…Millennials also seek a fair degree of latitude in their work options… [IA will need] to stay attuned to what specifically motivates employees and ensure they have 'current knowledge' needed to motivate and retain staff and keep them productive" [104]

Communicating

A major anticipated change is the way IA communicates results. "Today, internal audit departments rely largely on text to report to auditees and stakeholders. In the future, a best practice could be to digitize the work to a greater extent and rely more on infographics — and perhaps even interactive data visualizations — to convey meaning rather than pages of text and the occasional embedded table"[105]. IA will differentiate itself by "continuing to hone our messages to communicate business value and meaningful, actionable insights" [106]. IA will need to address "the lack of confidence in internal audit's ability to address these topics…There is a significant correlation between staying current, having the ability to address emerging issues of importance to management, and inspiring the confidence of internal audit stakeholders…As internal audit organizations strive to transition from financial controls oversight to advising on a wide range of strategic, business, and compliance risks, it is imperative that they establish credibility with company leaders by demonstrating their skills and capabilities in these areas"[107]

Department Management and Reporting Structures

The way in which audit departments are managed may also change. "Innovative internal audit departments will need to be managed and organized differently — less siloed — than they typically are today…Managing the audit department of the future will be a juggling act" [108], including:

- "Ensuring the group has the skills and competencies needed for broad mandates.
- Resourcing the team as leanly as possible to accomplish the mission.
- Incorporating the use of technology into work in a more meaningful way.
- Providing engaging work and career progression for team members in a flexible environment.
- Being an exporter of talent to the business" [109]
- "The year 2020 also holds changes for the way internal audit is positioned in the organization…Any industrywide changes in reporting structure will likely be the result of external forces…Otherwise...each company [will be] creating a reporting structure that it believes best suits its requirements, risk profile, and what it sees as value-creation from the internal audit function."[110]
  - o "There will be a shift in where the internal audit function reports, with more functions reporting to the CEO as opposed to the chief financial officer as audit committees stress independence for the

[100] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[101] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[102] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[103] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[104] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[105] 2014. Russell Jackson. Tomorrow's Best Practices. https://chapters.theiia.org/albany/Documents/0114Newsletter.pdf
[106] 2014. Russell Jackson. Tomorrow's Best Practices. https://chapters.theiia.org/albany/Documents/0114Newsletter.pdf
[107] 2011. The Institute of Internal Auditors. Making Internal Audit More Credible and Relevant. http://www.isaca.org/Groups/Professional-English/iso-iec-20000/GroupDocuments/Making_Internal_Audit_More_Credible_and_Relevant.pdf
[108] 2014. Russell Jackson. Tomorrow's Best Practices. https://chapters.theiia.org/albany/Documents/0114Newsletter.pdf
[109] 2014. Russell Jackson. Tomorrow's Best Practices. https://chapters.theiia.org/albany/Documents/0114Newsletter.pdf
[110] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/

function...CAEs will likely have a seat at the table in the C-suite…and audit committees will push for greater audit independence…Perhaps 75 percent of internal audit functions currently report functionally to an audit committee; that number could rise to 90 percent by 2020…Risk committees will be formed under boards, rather than audit committees...In some companies, internal audit will operate under a hybrid reporting structure" [111]

Big Technology

- "By 2020, internal audit is going to be driven much more by data — in the risk assessment phase, in planning and scoping an internal audit, and in executing it…Visual analytics will rise dramatically on the back end, plus more technology-enabled communications and more tablet-based reporting…Analytics will be especially important to the future of internal audit, IA can leverage technology into the kinds of tools that will let us analyze vast amounts of data on emerging trends and anomalies". [112]

- "Three key areas of future technological change…
  - …One is very comprehensive GRC platforms…
  - …Another is dramatic expansion in the use of analytics in individual audits and the internal audit life cycle, using analytics to drive efficiencies in the audit process and provide much more compelling and powerful data to stakeholders...
  - …The third is a move to continuous auditing so internal audit serves as a real-time monitor to detect control or other issues" [113]

- "Inventions that go beyond Google Glass and other portable devices — all the way to chips embedded in people, bringing data and other capabilities to internal auditors wherever they are, including the warehouse floor, the CEO's office, or flying on an airplane may also be incorporated into IA" [114]

[111] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[112] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[113] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/
[114] 2013. Russell A. Jackson. Internal Audit in 2020. http://www.theiia.org/intAuditor/feature-articles/2013/december/internal-audit-in-2020/