



**Compliance, Audit, Risk Management and
Legal Affairs Committee
September 28, 2021
10:15 a.m.**

Discussion Item

CARL-3 External Quality Assessment of Internal Audit Function

Background Information

Donald Skeen, Director of Internal Audit, will give a summary of quality assessment recommendations and responses.

Attachment:

CARL-3.1 Summary Responses to Quality Assurance Review (see below)

A handwritten signature in dark ink that reads 'Donald C. Skeen'.

Donald C. Skeen, Director of Internal Audit

The University of North Carolina at Greensboro
Office of the Internal Auditor
Summary Responses to Quality Assurance Review

September 28, 2021

RECOMMENDATIONS FOR CONFORMANCE WITH PROFESSIONAL STANDARDS

Recommendation: Enhance the Internal Audit Charter

In its current form, the Internal Audit Charter provides a concise description of the **mission, authority, independence, responsibility, and standards** of the University's internal audit function. The Office of the Internal Auditor has prepared an expanded charter. The primary resource for constructing the revised document is the Institute of Internal Auditors' model internal audit charter. Specific standards from the IIA's model charter are incorporated within the revised document and include the Core Principles, the Code of Ethics, and the nature of assurance and consulting services. Another addition is a statement regarding the statutory authority for internal audit activity provided by the North Carolina Internal Audit Act.

The revised internal audit charter has been shared with the Chair of the Compliance, Audit, Risk Management, and Legal Affairs (CARL) Committee and the Chancellor. Upon their understanding and agreement, the enhanced internal audit charter will be signed by the Director of Internal Audit, the Chancellor, and the Chair.

Recommendation: Limited Quality Assurance Improvement Program

Based upon the recommendation, the Office of the Internal Auditor is expanding its Internal Audit Manual, a document addressing general professional attributes, fundamental internal audit responsibilities, and the basic internal audit process. Additions include standard workpaper items regarding planning, fieldwork, and reporting; along with a checklist to confirm compliance with the Internal Audit Manual. Items will incorporate further documentation of supervision (e.g., consistent sign-off via the audit program) for each engagement. Another supplement is a standard client survey to gather feedback that may improve the audit process. (Subsequent to the QAR, The NC Council of Internal Auditing [NC Office of State Budget and Management] has established a requirement that a standard document titled *Internal Audit Self-Assessment and Maturity Model* be submitted by agency internal audit functions annually beginning September 30, 2021.)

Recommendation: Development of the Risk-Based Audit Plan

The basic strategic plan for internal audit activity rests on *risk management* and *internal control*. Institutional Risk Management maintains a risk register which incorporates the following subject areas: (1) strategic, (2) reputational, (3) hazard, (4) compliance, (5) operations, and (6) financial. The University provides an annual self-assessment of internal controls over financial reporting to the North Carolina Office of the State Controller. This annual report focuses on five interrelated components and assesses specific processes of those components. The components are (1) control

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September 28, 2021

environment, (2) risk assessment, (3) control activities, (4) information and communication, as well as (5) monitoring activities. Although the primary planning focus of Internal Audit employs the risk register and self-assessment of internal controls; input from senior management, the CARL Committee, and professional associations are also considerations.

In accordance with the recommendation, the Office of the Internal Auditor will develop a risk-assessment work program. A significant component of the work program will be to identify the auditable universe of the University. The **risk management** and **internal control** documents, referenced above, will continue to provide valuable inputs in defining the University's auditable universe. Internal Audit will improve the documentation of the annual process to develop the risk-based audit plan. The process for development of the risk-based audit plan will be incorporated into the Internal Audit Manual.

Recommendation: Policy Manual Improvements

The current internal audit manual of the Office of the Internal Auditor addresses general professional attributes, fundamental internal audit responsibilities, and the basic internal audit process. Internal Audit is in the process of drafting a new manual. The Director of Internal Audit will review the Institute of Internal Auditors Implementation Guide 2040 relative to further development of the Internal Audit Manual. Review of the manual will be incorporated into the internal self-assessment process.

Recommendation: Lack of Due Professional Care and Engagement Planning

Based upon the recommendation, the Office of the Internal Auditor is expanding its Internal Audit Manual. Additions include standard workpaper items regarding planning, fieldwork, and reporting; along with a checklist to confirm compliance with the manual.

Documentation of the engagement planning process was the primary concern prompting this recommendation. Internal Audit ordinarily prepares a strategy document regarding planning, risk assessment, etc. Two engagements noted in the peer review were lacking this documentation. The engagements were not typical in that they were limited follow-up activities conducted to verify resolution of internal control or compliance concerns. Nonetheless, compliance with the updated Internal Audit Manual should promote consistency going forward.