

Audit and Compliance Committee Memorandum
Board of Regents, State of Iowa

Subject: Enterprise-Wide Focus for Internal Audit Plans

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Date Submitted: January 19, 2005

Recommended Action:

Receive the report on the Enterprise-Wide Focus for Internal Audit Plans.

Executive Summary:

Internal Audit Plans During the discussion of Internal Audit Plans for the Regent universities at the August 2004 meeting of the Audit and Compliance Committee, the Committee expressed the need for a consistent, integrated, and seamless audit function for the enterprise, located within the institutions. Institutional resources need to be applied to the highest-risk areas.

At the December 2004 Board meeting, the University Presidents presented reorganization plans for three enterprise-wide areas, which included the internal audit function.

That proposal, adopted by the Regents for implementation beginning FY 2006, consolidates the internal audit departments at the Regents' institutions into a single department that will serve all Regents' institutions. This report outlines specific processes and commonalities as the Regent institutions continue to define and develop the enterprise-wide internal audit plans.

Internal audit plans have historically been developed and tracked on a fiscal year basis. Reviewing the enterprise-wide focus in February gives the Committee an opportunity to provide direction and input into the internal audit planning process.

The University of Iowa, whose Director of Internal Audit will have the lead responsibility for internal audit under the single department, submitted the following synopsis to provide background and augment the Committee's discussion of the enterprise-wide internal audit plan:

As Submitted by
the University of
Iowa, Interim
Director of Internal
Audit

As in prior years, the internal auditors of the three Regent universities are coordinating and applying similar processes to their upcoming risk assessments for next year's audit plan. The following are those processes all three offices perform to identify areas of risk and formulate their respective audit plans. Each internal audit office:

- Identifies critical business processes.
- Contacts university management through personal or phone interviews or e-mail to solicit their risk perspectives.
- Shares audit issues with the other regent university internal audit offices.

- Reviews recent incidents and issues, and prior audit activity.
- Utilizes a list of risk factors to assist prioritizing potential audit areas. The risk factors common to all three audit offices are:
 - General control environment and operation management
 - Changes in systems, people or processes
 - Financial activity including dollar volume, cash handling, and equipment inventories
 - Compliance (Legal, regulatory, and other)
 - Complexity or sensitivity of operations
- Shares a preliminary list of audit topics with the President or appropriate senior administration for final feedback.

These processes are very similar to those performed by the majority of our peer institutions and are recognized by the Institute of Internal Auditors as prudent procedures needed to properly assess risk and plan audit schedules.

The audit directors look forward to further discussing these and other items and answering any questions at the February Audit and Compliance Committee meeting.

Background:

At the December 2004 Board meeting, the University Presidents presented reorganization plans in three areas, including internal audit. The following summarizes the consolidation of the internal audit departments at the Regents' institutions into a single department at the University of Iowa that will serve all Regents' institutions.

Potential Benefits

- A single audit department has the following potential benefits:
- Collaboration on risk assessment and enterprise-wide risks
 - Similar reporting mechanisms
 - Consolidated and consistent communications to the Board of Regents
 - More effective use of scarce resources (i.e., IT auditors)
 - A reallocation of human resources from audit management to auditing
 - Improved coordination with the Auditor of State staff and Regents external auditors

Director of Internal Audit

The Director of Internal Audit has line responsibility for the entire audit function. All campus-based auditors will report to the Director of Internal Audit but will maintain effective communication and work closely with institutional leaders of the campus to which they are assigned.

This will be accomplished through adherence to a matrix structure to be developed by the Director and the institution heads to assure a consultative process that does not sacrifice the close communications, presidential involvement, and management support of a campus-based internal audit organization. The matrix process will assure close consultation on critical issues of goal setting, evaluation and compensation of key personnel.

Risk Assessment
and Annual Audit
Planning

Risk assessment, as a part of annual audit planning will be conducted within and across the three universities and two special schools. Methodology and criteria will be determined jointly. Unique or significant factors may be considered at each institution in the course of development of its annual audit plan.

The Director of Internal Audit will be responsible for all internal audit functions across all three universities. This includes responsibility for developing audit plans, accomplishing the audit plans, oversight including workpaper review, and discussing recommendations with institutional management.

Implementation
Issues

- Address all required internal audit responsibilities in Board policy
- Identify benchmarks
- Track costs and quality
- Denote extent of usage of best practices
- Address disproportionate savings/costs to institutions
- Develop one annual internal audit plan with five components
- Consider future role of Board Office in preparation/discussion of internal audit reports

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