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AUDIT SERVICES

March 1, 2007

President David Daniel
The University of Texas at Dallas
Office of the President
P.O. Box 830688, AD22
Richardson TX 75083-0688

Dear Dr. Daniel,

The peer review team has completed its review of the University of Texas at Dallas' Internal Audit Function and submits this report for your review. It was a pleasure to review a department which exemplifies the collegiality and professionalism that all internal audit departments strive to achieve.

The attached report includes an Executive Summary which provides an overview of the review, including our conclusions and recommendations. Detailed recommendations and management responses are provided in the Observations, Recommendations, and Management Responses section of the report which follows the Executive Summary.

We appreciate the opportunity to be of service to UT Dallas. We will be happy to respond to further questions regarding this report and provide any additional information desired.

I apologize to the members of the Audit and Compliance Committee for the delay in providing this report to you. My own personal and professional obligations were the cause of the delay and I wish to assure you that it is neither a reflection on the department, nor the other members of the QAR team.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. Horr", written over a light blue horizontal line.

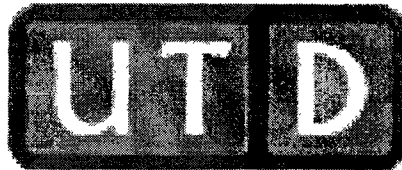
Douglas D. Horr, CIA, CBA
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AUDIT SERVICES

- c. Ms. Lisa Choate (external member)
 - Dr. James Gary, Vice President for Information Resources and
Chief Information Officer
 - Ms. Jody Nelsen, Interim Vice President for Business Affairs
 - Dr. Hasan Pirkul, Dean of the School of Management
 - Dr. Darrelene Rachavong, Vice President Student Affairs
 - Dr. B. Hobson Wildenthal, Executive Vice President and Provost
 - Ms. Toni Messer, Director of Audit and Compliance
 - Mr. Charlie Chaffin, Director of Audits, UT System



**Quality Assurance Review
of the
Internal Audit Function
Office of Audit and Compliance
The University of Texas at Dallas**

November 2006

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EXECUTIVE SUMMARY

Objectives:

The principal objectives of the quality assurance review were to assess the Internal Audit function of UTD's Office of Audit and Compliance and its conformity to the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the department's effectiveness in carrying out its mission as stated in its adopted charter and as expressed in management's expectations, and identify opportunities to enhance its management, work processes, and its value to UT Dallas. At the request of Internal Audit management, we also evaluated the department's conformity to the standards promulgated by Governmental Auditing Standards (GAS) and the *Texas Internal Auditing Act (TIA Act)*.

Scope and Methodology:

We reviewed the audit work conducted for the fiscal year ended August 31, 2006. We followed the procedures set forth in the Texas State Agency Internal Audit Forum's (SAIAF) *Master Peer Review Program* as it provided an appropriate crosswalk between the *Standards* and the *TIA Act*.

Summary of Recommendations:

Part I – Matters for Consideration of UT Dallas Management

- (1) Enhance Internal Audit's Management Structure
- (2) Ensure completion of prior QAR recommendations

Part II – Issues Specific to Internal Audit

- (3) Clarify responsibilities of Compliance function
- (4) Improve timeliness of audit completion and reporting

Conclusion:

The Internal Audit function generally conforms to the *Standards* as a whole and demonstrates the necessary evidence to show conformity to the *TIA Act*. Recommendations included in this report will help enhance compliance with the standards and the effectiveness of the department's work processes, and ensure Internal Audit continues to be seen as a valuable resource to the UTD community.

Overall Response:

Internal Audit management generally agreed with the QAR team's observations and recommendations and indicated that in at least one instance (clarifying Compliance responsibilities) actions had already been taken to mitigate the issue noted.

Quality Assurance Team

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Richard Dawson, MBA, CPA, CIA

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Director of Audit Services,
Stevens Institute of Technology
Executive Director, Audit, Compliance,
and Risk Services, UT San Antonio
City Auditor, City of Garland, TX

BACKGROUND

Originally the Graduate Research Center of the Southwest, The University of Texas at Dallas (UTD) became a part of The University of Texas System in 1969. For 21 years UTD offered courses only to graduate students and upper classmen. Since admitting its first freshman class of 100 students in 1990, UTD has diversified into a comprehensive university with seven schools, over 14,000 students, and more than 40,000 alumni worldwide.

The Internal Audit function operates as part of UTD's Office of Audit and Compliance. Its mission is to provide an independent, objective assurance and consulting activity designed to add value and improve the University's operations, and to help the University accomplish its mission in learning, research, and public service by providing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.¹ Internal Audit's charter defines its purpose, authority, and responsibilities and is periodically reviewed and approved by the Institutional Audit and Compliance Committee. Specifically, the charter outlines the scope of Internal Audit's work and activities, and the independence of its staff in performing those activities.

Organizationally, Internal Audit reports directly to the President of UTD. The Chief Audit Executive is the Director of Audit and Compliance who oversees an Internal Audit staff of three full-time positions and a half-time position, as well as two staff in the compliance function. Currently, the Associate Director for Compliance position is vacant. In FY 2006, Internal Audit's budget was approximately \$395,000, and split 70/30 for staff compensation and departmental support, respectively.

In addition to the direction provided by the President, UTD's Institutional Audit and Compliance Committee provides general oversight of the Internal Audit function and serves in an advisory capacity to the Director of Audit and Compliance. The committee's members include:

- ◇ President (committee chair)
- ◇ Executive Vice President and Provost
- ◇ Vice President for Student Affairs
- ◇ Dean of the School of Management
- ◇ Chief Information Officer
- ◇ Interim Vice President for Business Affairs
- ◇ Partner, Ultimate Health Resources (External Audit Committee member)

¹<http://www.utd.edu/audit-compliance>

PURPOSE

As requested, we have conducted a quality assurance review (QAR) of the Internal Audit function (IA) within the Office of Audit and Compliance at the University of Texas at Dallas (UT Dallas). The principal objectives of the QAR were to assess Internal Audit's conformity to the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing (the Standards)*, to assess Internal Audit's effectiveness in carrying out its mission, and to identify opportunities to enhance its management and work processes, as well as its value to UT Dallas. At the request of Internal Audit management we also evaluated the department's conformity to the standards promulgated by the *Texas Internal Auditing Act (TIA Act)*.

SCOPE AND METHODOLOGY

We reviewed the audit work conducted from September 1, 2005 through August 31, 2006. We followed the guidelines set forth in the Texas State Agency Internal Audit Forum's (SAIAF) *Master Peer Review Program* as it provided an appropriate crosswalk between the *Standards*, GAS, and the *TIA Act*.

In preparing for the QAR, Internal Audit gathered information about their office, staff, and UT Dallas. The review team also submitted surveys to selected IA customers. During our on-site visit November 5-9, 2006, interviews were held with the Director of Audit and Compliance and her staff, the President, and the members of the Audit and Compliance Committee. In addition, we reviewed Internal Audit's engagement and staff management processes, risk assessment and audit planning processes, audit tools and methodologies, and a representative sample of Internal Audit's working papers and reports.

We held an exit meeting with the Director on November 8th to discuss our observations and recommendations. A draft report was provided to the Director whose responses are included in the following report.

SUMMARY OF RECOMMENDATIONS

Our recommendations are divided into two groups:

- ◊ Those that concern UT Dallas as a whole and suggest actions by senior management. We include them because we believe they will be useful to UT Dallas management and because they may impact the continued effectiveness of Internal Audit and the value it can add.
- ◊ Those that relate to Internal Audit's structure, staffing, deployment of resources, and similar matters that should be implemented within Internal Audit, with support from senior management.

Highlights of our recommendations are set forth below, with details in the main body of our report.

Part I – Matters for Consideration of UT Dallas Management

- (1) A detailed assessment of existing staff capabilities should be conducted to determine what training and/or mentoring may be needed for staff members to assume a managerial role in support of the Director and ensure the continued viability of the Internal Audit function in the Director's absence.
- (2) The prior QAR should be reviewed to ensure all recommendations are implemented.

Part II – Issues Specific to Internal Audit

- (3) The Director of Audit and Compliance should consider developing more clearly defined objectives outlining the function of the compliance activity and ensure these are communicated to the UT Dallas community.
- (4) Improve timeliness of audit completion and reporting through enhanced staff communications and meetings.

OPINION AS TO CONFORMITY TO THE STANDARDS

Overall, it is our opinion that Internal Audit **generally conforms** to the *Standards* as a whole. In our terminology, "generally conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards*, and some opportunities for improvement, as discussed in our recommendations. "Partially conforms" means deficiencies in practice were noted, but these did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal activity from performing adequately in all or significant areas of its responsibilities.

The table on the following page provides a summary of the Quality Assurance Review Team's evaluation regarding compliance with specific standards. The table also provides a crosswalk between the IIA *Standards*, GAS, and the *TIA Act*.

Standards	GAS	TIA Act	Description	GC	PC	DNC
Code of Ethics		2102.011	Code of Ethics			
1000			Purpose, Authority, & Responsibility			
1100, 1110, 1120, 1130	3.03, 3.13, 3.14, 3.06, 3.17, 3.21, 3.27, 3.28, 3.29, 3.30, 3.32, 3.04, 3.07, 3.08, 3.20, 3.09	2102.006 2102.007	Independence and Objectivity			
1200, 1210, 1220, 1230	3.33, 3.39, 3.40, 3.42, 3.45, 3.47, 3.48	2102.006	Proficiency and Due Professional Care			
1300, 1310, 1311, 1312, 1320, 1330	3.49, 3.50, 3.51, 3.52	2102.007	Quality Assurance and Improvement Program			
2000, 2010, 2020, 2030, 2040, 2050, 2060		2102.005 2102.007 2102.008 2102.006 2102.009	Managing the Internal Audit Activity			
2100, 2110, 2120, 2130		2102.005 2102.007	Nature of Work			
2200	7.02		Engagement Planning			
2300	7.44, 7.48, 7.66		Performing the Engagement			
2400	8.02, 8.07, 8.38, 8.54		Communicating Results			
2500			Monitoring Progress			
2600			Management's Acceptance of Risks			

GC – Generally Conforms
PC – Partially Conforms
DNC – Does Not Conform

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

The Internal Audit function is well managed and appears focused in staying current in its approaches to the profession. Staff members are knowledgeable in terms of the *Standards* and their implications on audit activities. The department recently implemented Teammate, an electronic working papers software program in an effort to further streamline and standardize audit practices.

In addition to those noted above, the QAR team noted the following strengths exhibited by the UT Dallas Internal Audit Department:

- A reputation as a valued resource within the UT Dallas community
- Well documented audit and review procedures
- A detailed annual risk assessment and audit plan
- A committed, competent, and respected staff
- Independence enhanced by a reporting relationship to the President
- Clear and concise reporting
- Client satisfaction with the audit services performed

The QAR team's recommendations are designed to enhance Internal Audit's existing strengths, as well as the effectiveness and efficiency of the department's operations. The recommendations will also help ensure the department maintains compliance with the various auditing standards and continues to provide a valued service to the University.

Part I – Matters for Consideration of UT Dallas Management

(1) Enhance Internal Audit's Management Structure

Observation

The Director of Audit and Compliance (CAE) has no Assistant Director or appropriate level staff to assume her duties should she be unable to perform them. This issue is compounded due the level of knowledge of the University and its operations the Director has acquired in her tenure at UT Dallas. While existing staff members are competent auditors, they lack the needed experience to fill the role of an effective interim Director. In addition, despite the noted competencies and professionalism of the staff, interviews revealed that there were no current aspirations for long-term professional auditing careers.

Recommendation

A detailed assessment of existing staff should be conducted to determine what training and/or mentoring may be needed for staff members to assume a managerial role in support of the Director and ensure the continued viability of the Internal Audit function in the Director's absence.

Management Response

The Director will provide training and leadership opportunities to the staff members to enhance their supervisory and managerial skills. In the Director's absence, the Senior Auditor is delegated the authority over the department. In the event the Director is unable to perform her duties, the U. T. System Audit Office Liaison has agreed to assist the Internal Audit Office in managing the department.

(2) Ensure Implementation of Prior QAR Recommendations

Observation

While some recommendations noted in the previous QAR (October 2003) were implemented, several remain incomplete. Staffing turnover, changes in UT Dallas leadership, and additional externally mandated reviews made timely implementation of all recommendations difficult. We observed these recommendations are still relevant in terms of their value to the Internal Audit activity. We also noted they may need to be enhanced based on the current status of the department and external events that have occurred subsequent to the prior QAR. These recommendations ensure Internal Audit maintains compliance with the current standards and provides appropriate opportunities for staff enhancement. Those yet to be implemented include the following:

Complete the update of the Audit Manual to reflect the new Standards and any other changes in departmental policies and procedures.

(Subsequent to the issuance of the QAR report in 2003, the IIA issued a revision of the Standards. (January 2004))

Review the department's training policy to ensure that the established requirements are consistent with training needs for the current staffing level and address the changing, complex environment of UT Dallas.

Expand available Internal Audit activities to include more formalized consulting projects

Recommendation

We recommend management take measures to ensure that recommendations made in the prior QAR are implemented. As noted, the *Standards* have been revised since the issuance of the last QAR and we recommend the updating of the Audit Manual take into account those revisions to ensure compliance.

Management Response

The Director plans to complete the Audit Manual update by May 31, 2007. A written training policy will be incorporated in the revised Audit Manual; however, training requirements are reviewed annually with employees and appropriate training is given to address the current needs of the Office. The Director will consult with other audit departments to determine how to enhance the consulting project function. A plan will be developed by June 30, 2007, and incorporated into the Fiscal Year 2008 Audit Plan.

Part II – Issues Specific to Internal Audit

(3) Clarify Responsibilities of Compliance Function

Observation

The Offices of Internal Audit and Compliance were reorganized into the Office of Audit and Compliance in September of 2005 in an effort to streamline operations of the two offices. The Compliance Officer (Assistant Director of Compliance) reports administratively to the Director of Audit and Compliance and functionally to the President.

While the mission of the Compliance Office is documented, our interviews disclosed that the UT Dallas community appears confused as to the responsibilities of the Compliance Office and how they differ from those of Internal Audit. Some noted they see the two functions as redundant. Based on the assurance activities performed to ensure compliance activities are adequate, (inspections by Compliance and internal audits by Internal Audit) this confusion is understandable.

Recommendation

We recommend the Director of Audit and Compliance consider developing more clearly defined objectives and detailing the responsibilities of the Compliance activity, and ensure these are communicated to the UT Dallas community.

Management Response

The Director has updated the UTD Office of Audit and Compliance Website to include an existing document that defines the responsibilities of Audit and Compliance. Audit and Compliance staff members have been instructed to promote this information when meeting with employees during audits and compliance activities.

(4) Improve Timeliness of Audit Completion and Reporting

Observation

Through our review of Internal Audit's time budget for FY 2006, and discussions with the Director of Audit and Compliance, we noted the completion of some audits and issuance of corresponding audit reports were often delayed and engagements extended well beyond the budgeted hours. The Director noted some of these time overruns were beyond the control of the Internal Audit staff. Others however, appear to be related to various staffing and staff training issues. In addition, through our interviews with internal audit staff we learned that some staff members might benefit from additional time with the Director.

Extended audit engagements and delayed communications increase the time risk exposures may remain unmitigated.

Recommendation

We recommend the Director improve the timeliness of audit completion and reporting through enhanced staff communications and meetings. Specifically, we recommend the Director consider implementing project status meetings to assist staff members stay on track.

Management Response

The Director has taken steps to improve the timeliness of audit completion and reporting. Staff meetings for the audit staff are now held every two weeks rather than monthly. With the implementation of TeamMate (electronic working papers), the Director can now look at the working papers online. The Director has implemented procedures to review the automated working papers each week to ensure satisfactory progress is being made on the audits. In addition, measures have been taken to make the staff more accountable for their audit projects.

CONCLUSION

Overall, the UT Dallas Internal Audit **generally conforms to the *Standards* as a whole**. The recommendations included in this report will help enhance compliance with the *Standards*, improve the effectiveness of Internal Audit's work processes, and assist the department in its mission of service to UTD management.

We appreciate the courtesy and cooperation received from the Director of Audit and Compliance and her staff, the members of the Audit Committee, and faculty and staff during the QAR process.

APPENDIX A

AUDITS REVIEWED

The following audits were reviewed as part of the QAR:

Date of Audit	Name of Audit	Audit Staff	Audit Report #
10/06/2005	Business Expense Reimbursements	Carla Garner	R602
4/20/2006	Equipment Inventory	Carla Garner Jennifer Rossberg	R606
7/31/2006	Executive Travel and Entertainment		R611
8/21/2006	School of Economic, Political and Policy Sciences	Toni Messer, Bob Alexander, Mariam El-Sadi	R613

APPENDIX B

**Institute of Internal Auditors
International Standards for the Professional Practice
Of Internal Auditing²**

Attribute Standards

1000 - Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the *Standards*, and approved by the board

1000.A1 - The nature of assurance services provided to the organization should be defined in the audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances should also be defined in the charter.

1000.C1 - The nature of consulting services should be defined in the audit charter

1100 - Independence and Objectivity

The internal audit activity should be independent, and internal auditors should be objective in performing their work

1110 - Organizational Independence

The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities

1110.A1 - The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results

1120 - Individual Objectivity

Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 - Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130.A1 - Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

² <http://www.theiia.org/guidance/standards-and-practices/professional-practices-framework/standards/standards-for-the-professional-practice-of-internal-auditing>

1130.A2 - Assurance engagements for functions over which the chief audit executive has responsibility should be overseen by a party outside the internal audit activity

1130.C1 - Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 - If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

1200 - Proficiency and Due Professional Care

Engagements should be performed with proficiency and due professional care.

1210 - Proficiency

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

1210.A1 - The chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 - The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 - Internal auditors should have 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 expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 - The chief audit executive should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 - Due Professional Care

Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 - The internal auditor should exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of risk management, control, and governance processes
- Probability of significant errors, irregularities, or noncompliance
- Cost of assurance in relation to potential benefits

1220.A2 - In exercising due professional care the internal auditor should consider the use of computer-assisted audit tools and other data analysis techniques.

1220.A3 - The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified

1220.C1 - The internal auditor should exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.

- Relative complexity and extent of work needed to achieve the engagement's objectives.

- Cost of the consulting engagement in relation to potential benefits

1230 - Continuing Professional Development

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

1300 - Quality Assurance and Improvement Program

The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring. Each part of the program should be designed to help the internal auditing activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the *Standards* and the *Code of Ethics*

1310 - Quality Program Assessments

The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

1311 - Internal Assessments

Internal assessments should include:

- Ongoing reviews of the performance of the internal audit activity; and

- Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the *Standards*

1312 - External Assessments

External assessments should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The potential need for more frequent external assessments as well as the qualifications and independence of the external reviewer or review team, including any potential conflict of interest, should be discussed by the CAE with the Board. Such discussions should also consider the size, complexity and industry of the organization in relation to the experience of the reviewer or review team.

1320 - Reporting on the Quality Program

The chief audit executive should communicate the results of external assessments to the board.

1330 - Use of "Conducted in Accordance with the Standards"

Internal auditors are encouraged to report that their activities are "conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*." However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the *Standards*.

1340 - Disclosure of Noncompliance

Although the internal audit activity should achieve full compliance with the *Standards* and internal auditors with the *Code of Ethics*, there may be instances in which full compliance is not achieved. When noncompliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the board.

Performance Standards

2000 - Managing the Internal Audit Activity

The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

2010 - Planning

The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010.A1 - The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.

2010.C1 - The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Those engagements that have been accepted should be included in the plan.

2020 - Communication and Approval

The chief audit executive should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

2030 - Resource Management

The chief audit executive should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

2040 - Policies and Procedures

The chief audit executive should establish policies and procedures to guide the internal audit activity.

2050 - Coordination

The chief audit executive should share information and coordinate activities with other internal and external

providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts

2060 - Reporting to the Board and Senior Management

The chief audit executive should report periodically to the board and senior management on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

2100 - Nature of Work

The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.

2110 - Risk Management

The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

2110.A1 - The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.

2110.A2 - The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

2110.C1 - During consulting engagements, internal auditors should address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2110.C2 - Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2120 - Control

The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2120.A1 - Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems. This should include:

- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations
- Safeguarding of assets
- Compliance with laws, regulations, and contracts.

2120.A2 - Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

2120.A3 - Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

2120.A4 - Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.

2120.C1 - During consulting engagements, internal auditors should address controls consistent with the engagement's objectives and be alert to the existence of any significant control weaknesses.

2120.C2 - Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2130 - Governance

The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

Promoting appropriate ethics and values within the organization

Ensuring effective organizational performance management and accountability

Effectively communicating risk and control information to appropriate areas of the organization.

Effectively coordinating the activities of and communicating information among the board, external and internal auditors and management

2130.A1 - The internal audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs and activities.

2130.C1 - Consulting engagement objectives should be consistent with the overall values and goals of the organization.

2200 - Engagement Planning

Internal auditors should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

2201 - Planning Considerations

In planning the engagement, internal auditors should consider:

The objectives of the activity being reviewed and the means by which the activity controls its performance.

The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.

The adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model.

The opportunities for making significant improvements to the activity's risk management and control systems.

2201.A1 - When planning an engagement for parties outside the organization, internal auditors should establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 - Internal auditors should establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding should be documented.

2210 - Engagement Objectives

Objectives should be established for each engagement.

2210.A1 - Internal auditors should conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives should reflect the results of this assessment.

2210.A2 - The internal auditor should consider the probability of significant errors, irregularities, noncompliance, and other exposures when developing the engagement objectives.

2210.C1 - Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.

2220 - Engagement Scope

The established scope should be sufficient to satisfy the objectives of the engagement.

2220.A1 - The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 - If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 - In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the client to determine whether to continue with the engagement.

2230 - Engagement Resource Allocation

Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 - Engagement Work Program

Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

2240.A1 - Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 - Performing the Engagement

Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

2310 - Identifying Information

Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

2320 - Analysis and Evaluation

Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

2330 - Recording Information

Internal auditors should record relevant information to support the conclusions and engagement results.

2330.A1 - The chief audit executive should control access to engagement records. The chief audit executive should obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 - The chief audit executive should develop retention requirements for engagement records. These retention requirements should be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 - The chief audit executive should develop policies governing the custody and retention of engagement records, as well as their release to internal and external parties. These policies should be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 - Engagement Supervision

Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2400 - Communicating Results

Internal auditors should communicate the engagement results.

2410 - Criteria for Communicating

Communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 - Final communication of engagement results should, where appropriate, contain the internal auditor's overall opinion and or conclusions.

2410.A2 - Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 - When releasing engagement results to parties outside the organization, the communication should include limitations on distribution and use of the results.

2410.C1 - Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 - Quality of Communications

Communications should be accurate, objective, clear, concise, constructive, complete, and timely.

2421 - Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive should communicate corrected information to all parties who received the original communication.

2430 - Engagement Disclosure of Noncompliance with the Standards

When noncompliance with the *Standards* impacts a specific engagement, communication of the results should disclose the:

Standard(s) with which full compliance was not achieved,
Reason(s) for noncompliance, and
Impact of noncompliance on the engagement.

2440 - Disseminating Results

The chief audit executive should communicate results to the appropriate parties.

2440.A1 - The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 - If not otherwise mandated by legal, statutory or regulatory requirements, prior to releasing results to parties outside the organization, the chief audit executive should:

Assess the potential risk to the organization.
Consult with senior management and/or legal counsel as appropriate
Control dissemination by restricting the use of the results.

2440.C1 - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 - During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

2500 - Monitoring Progress

The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 - The chief audit executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

2500.C1 - The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2500 - Resolution of Management's Acceptance of Risks

When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution