

Minnesota State Colleges & Universities  
Office of Internal Auditing

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# Internal Auditing Self-Assessment

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Final Report  
January 4, 2010

**SELF - ASSESSMENT OF  
MINNESOTA STATE COLLEGES AND UNIVERSITIES  
OFFICE OF INTERNAL AUDITING**

**JANUARY 2010**

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## ***BACKGROUND***

The *International Professional Practices Framework (IPPF)*, updated in January 2009, is the conceptual framework that organizes authoritative guidance promulgated by the Institute of Internal Auditors (IIA). The *IPPF* included revisions to the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*. IIA *Standard 1300 – Quality Assurance and Improvement Program* requires the chief audit executive to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program should be designed to ensure that the internal audit activity is in conformance with the *Standards* and the Code of Ethics, and should assist the internal audit activity in adding value and improving the organization's operations. According to the *Standards*, a comprehensive quality assurance and improvement program must include internal and external assessments.

Internal assessments include ongoing monitoring of the performance of the internal audit activity and periodic reviews performed through self assessment by persons within the organization with sufficient knowledge of internal auditing practices. External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

The Minnesota State Colleges and Universities (MnSCU) Office of Internal Auditing (Internal Auditing) developed an internal guideline to provide guidance on how it will comply with the *Standards*. The guideline identifies how periodic assessments will be conducted and ensures its quality assessment program remains up-to date. The guideline suggests that internal periodic assessments be conducted every two years with arrangements to be made for an independent reviewer or review team to conduct an external assessment every fourth year.

In January, 2006, the MnSCU Audit Committee accepted a proposal that the Office of Internal Auditing undergo an external quality assessment using the self-assessment with independent validation model. The first quality assessment was conducted in 2006-2007, using the services of independent validators obtained through the Twin Cities Chapter of the Institute of Internal Auditors. Conclusions reached as to conformity to the standards, recommendations for improvement and plans for their implementation were presented to the audit committee and senior management in the final report, dated March 7, 2007.

During calendar year 2009, Internal Auditing completed and fully documented an internal self-assessment. The self-assessment was performed in-house. This report serves as the final product of that self-assessment. The principal objectives of the self-assessment were (1) to assess conformance to the IIA's *International Professional Practices Framework (Standards)*, (2) evaluate the internal auditing activity's effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of the management, and (3) identify opportunities to enhance its management and work processes, as well as its value to MnSCU.

The environment of Internal Auditing is well-structured and progressive, where *IIA Standards* are understood and its management endeavors to implement appropriate practices. Among these practices are the following:

- The mission, values and principles and vision statements of the Office of Internal Auditing are defined in Board Policy and are understood and practiced by the organization.
- The Executive Director reports directly to the Board of Trustees through the Chair of the Audit Committee. This is considered the optimum reporting arrangement, giving the right and responsibility to report directly to the Board of Trustees any circumstances that are significant violations of MnSCU controls or policies/procedures, and any other matters that warrant Trustee notification.
- In addition, Internal Auditing partners with management. The Executive Director reports administratively to the Chancellor of the Minnesota State Colleges and Universities system. The Executive Director is a member of the Chancellor's cabinet, which meets weekly, and also attends monthly Leadership Council meetings which include the Chancellor's cabinet and all college and university presidents. Because the internal audit function is shared with the Chancellor and the presidents, the Executive Director also has the right and responsibility to report any matters to the Chancellor and the presidents that warrant notification or to assist them in improving operations.
- The Executive Director has built an internal audit staff to support the needs of the system and to become a value-added knowledge resource center. This includes the hiring of experienced professionals from a variety of backgrounds, promoting professional certifications, and supporting professional development and training.
- In order to facilitate compliance with certain *IIA Standards*, the Office of Internal Auditing has developed internal guidelines for clarification and guidance on how it will comply with the *Standards*.

The Office of Internal Auditing has built a good reputation and credibility within the MnSCU system. Consequently, comments and recommendations are intended to build on the foundation already in place. Recommendations are set forth below in the *Observations and Conclusions* section of this report.

## ***METHODOLOGY***

### **Planning and Preparation**

Internal Auditing developed and adopted Guideline 1300 – Quality Assurance to provide guidance on how it will comply with the *Standard 1300 – Quality Assurance and Improvement Program*. The guideline identifies how periodic assessments will be conducted. The Executive Director of Internal Auditing designated Carolyn Gabel, a regional audit coordinator of the MnSCU Office of Internal Auditing, as the project manager to lead the self-assessment.

The *IIA Quality Assessment Manual* was used in performing this review. The manual is a set of tools developed by the IIA which includes checklists, guides and structured review programs to facilitate performance of external quality assessments and internal self-assessments. The tools incorporate the requirements of the *Standards* and relevant guidance from the *Practice Advisories*. The tools have been referenced to the *Standards* to assist in evaluating whether the internal audit activity is conforming to the *Standards*. Internal Auditing's Guideline 1300 provides direction for which tools should be completed as part of the internal self-assessment.

The internal assessment team was selected from Office of Internal Auditing staff, as they are familiar with the internal audit charter, the organization, the policies and procedures of the organization and the internal audit activities. Under the direction of the project manager, the regional audit coordinators and the former Director of Consulting Services were assigned tasks for the internal self-assessment.

The primary activities in the planning and preparation phase were to complete relevant portions of the Self-Study (Tool 2) and the Chief Audit Executive (CAE) Questionnaire (Tool 3). Completion of Tools 2 and 3 are intended to assess the efficiency and effectiveness of the internal auditing activities, identify opportunities for improvement and provide an opinion as to the degree of conformity to the *IIA Standards*.

A survey of Internal Auditing employees was not performed for the internal assessment. However, a customer service survey of the leadership of MnSCU was conducted as part of the internal quality assessment efforts. The survey was sent to the MnSCU Leadership Council members; this includes the presidents of the 32 colleges and universities and the cabinet members of the Office of the Chancellor. The survey was based on areas of inquiry suggested by the IIA, but questions were finalized by the Executive and Deputy Directors (project sponsors) and the project manager. The former Director of Consulting Services managed the customer service survey as part of the self-assessment. The Executive Director asked the Director of Consulting Services to maintain confidentiality of all responses, prepare and provide a summary of the responses to the project sponsors and the project manager, and then only subsequently make it available to others within Internal Auditing.

## **Internal Self-Assessment Fieldwork**

Fieldwork activities included completion of relevant portions of additional IIA Tools to assess Internal Auditing's structure and organization, risk assessment, engagement planning, and engagement and staff management processes.

Review of individual engagement work papers was an element of the assessment. The Office of Internal Auditing offers assurance, consulting<sup>1</sup>, investigative and professional advice services to assist the Board of Trustees, Chancellor and presidents in accomplishing their objectives and in improving operations. A representative sample of engagements was randomly selected for review from assurance services performed by the Office of Internal Auditing in fiscal year 2009. All regional audit coordinators participated in the review of work papers prepared by other regional audit coordinators. No reciprocal reviews were assigned. For each sample engagement selected for review, the audit coordinator completed the Individual Work Paper File Review Program (Tool 17) developed by the IIA to evaluate the effectiveness of guidance provided to staff and the coordination with management for planning, conducting, reporting and following-up on individual engagements. The tool is designed to determine whether staff and supervisors are adhering to the *Standards* and provide information on which to base recommendations for enhancing the Internal Auditing's effectiveness.

## **Self-Assessment Results, Recommendations and Implementation Plans**

The aforementioned activities contribute to the preparation of the overall report. The report contains the results/findings, with emphasis on opportunities for process improvement and action plans for implementation of the improvements. This final internal self-assessment report represents the conclusions agreed upon between the project manager and the Executive Director of Internal Auditing.

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<sup>1</sup> The MnSCU Office of Internal Auditing discontinued its consulting services effective September 1, 2009

## ***OPINION AS TO CONFORMITY TO THE STANDARDS***

It is our opinion that the activity of the Office of Internal Auditing generally conforms to the following *Standards*:

- 1000 – Purpose, Authority, and Responsibility (Charter),
- 1100 – Independence and Objectivity,
- 1200 – Proficiency and Due Professional Care,
- 1300 – Quality Assurance/Improvement Program,
- 2000 – Managing the Internal Audit Activity,
- 2100 – Nature of Work,
- 2200 – Engagement Planning,
- 2300 – Performing the Engagement,
- 2400 – Communicating Results,
- 2500 – Monitoring Progress
- 2600 – Resolution of Senior Management’s Acceptance of Risks, and
- The IIA’s Code of Ethics.

However, we found opportunities for further improvement in the following areas: performing a comprehensive review of the internal audit charter, planning for information technology audits and providing assurance of the effectiveness of risk management activities.

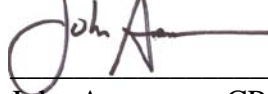
In our lexicon, “generally conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in our recommendations. “Partially conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies 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 audit activity from performing adequately in all or in significant areas of its responsibilities.

**Prepared by:**



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## ***OBSERVATIONS AND RECOMMENDATIONS***

### **1. The Office of Internal Auditing's Charter is not up-to-date and does not reflect recent changes to professional standards.**

On January 1, 2009, The Institute of Internal Auditors (IIA) released its revised International Professional Practices Framework, which included revisions to the organization's *International Standards for the Professional Practice of Internal Auditing (Standards)*. Key changes to the *Standards* included the addition of six new standards and the revision of the wording in most standards by replacing the word "should" with "must", thus, creating a requirement for actions to be taken. Additional requirements were added to some of the existing standards as well as the addition of interpretations to many of the standards, incorporating components that were previously part of the IIA's *Practice Advisories*.

Required by IIA *Standards*, the internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The charter establishes the internal audit activity's position within the organization, authorizes access to records, personnel, and physical properties relevant to performance of engagements and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Board.

The Office of Internal Auditing's Charter is contained in MnSCU Board Policy 1D.1. MnSCU Board Policy 1A.1, Part 6, Subpart H establishes procedures to ensure that each Board policy and System procedure is reviewed at least once every five years. Policy Board Policy 1D.1 is scheduled for its five year review in March 2010. When conducting that review, the policy should be compared to the new *Standards* to see whether there are items that require attention. Any changes that have an impact on Internal Auditing's practices should be incorporated into the policy to comply with the IIA *Standards*. As an example, one of the new standards issued, *Standard 1010 - Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter* requires that the mandatory nature of the definition of internal auditing, the Code of Ethics, and the Standards be recognized in the internal audit charter. This information is not included in the current version of Board Policy 1D.1.

A comprehensive five year review of Policy 1D.1 will also be an opportune time to reconsider how consulting services should be addressed. Consulting services is included in current Board Policy 1D.1 as one of the types of services offered by the Office of Internal Auditing. However, since September 2009, the Office no longer has the resources and expertise to maintain this service line and has discontinued offering consulting services.



*Recommendation:*

- *As part of the scheduled five year review of Board Policy 1D.1, the Executive Director of Internal Auditing should analyze changes to the new IIA standards and propose revisions as necessary for compliance with the Standards to the Audit Committee. In addition, the documentation of consulting services should be addressed when reviewing and revising Policy 1D.1.*

**MANAGEMENT RESPONSE:** *Concur.*

**RESPONSIBLE PARTY:** *Executive Director of Internal Auditing*

**EXPECTED COMPLETION DATE:** *First draft–March 2010; second draft–May 2010.*

- 2. Periodic assessments of information technology risks should be communicated to the Audit Committee as part of the audit planning process. (Prior assessment recommendation not addressed).**

The Office of Internal Auditing conducts an annual risk assessment process and reports the results to the Audit Committee. The risk assessment is the basis for the annual internal auditing plan and the strategic external auditing plan.

In response to the recommendation Internal Auditing received in the March 2007 external quality assessment report and in preparation for the fiscal year 2008 Audit Plan, the Deputy Director of Internal Auditing determined the Information Technology (IT) audit universe for MnSCU using a framework developed by the IT Governance Institute. The fiscal year 2008 Audit Plan included the addition of a separate risk component for information technology activities. The plan proposed a framework for developing a comprehensive plan for auditing information technology activities and was developed in conjunction with the MnSCU Information Technology Services Division and was previewed by the Leadership Council Technology Committee. The plan was submitted for review and approval by the Audit Committee later in calendar year 2007, but competed with other potential internal auditing topics and was not chosen.

The topic of IT audits was also listed as potential internal auditing projects in the 2009 Audit Plan. In January 2009, the IT audit topics again, were not chosen. In the January 2009 report to the Audit Committee, several IT audit topics were listed as possible projects, but the Executive Director of Internal Auditing noted that using Internal Auditing to study these topics was not recommended at that time for various reasons, including a lack of resources and expertise and that some of them were in the

formative stage and a system-wide audit would be premature until they have more established foundations.

The most recent 2010 Audit Plan continues to include IT as an audit area needing further consideration. IT controls are subject to basic audit coverage as part of the annual audit of the system-wide financial statements. In November 2009, the principal MnSCU external auditor cited an observation in their management letter for the most recent audit that comprehensive risk-based IT audits of ITS business functions and systems have not been performed since the Legislative Auditor's withdrawal of IT audit resources from MnSCU.

In prior years, the Legislative Auditor had been able to supplement IT audit coverage and conduct periodic audits of higher risk IT operational areas. Staffing turnover, though, has limited the IT audit capacity of the Legislative Auditor and it has not examined MnSCU IT controls since 2006. Since that time, MnSCU IT operations have undergone significant structural changes and taken on increased organizational importance. The January 2007 Request for Proposal for external auditing services cited the need for the principal MnSCU external auditor to conduct IT audit work necessary to render an opinion on the MnSCU financial statements. This IT audit coverage did not, however, address broader IT risks related to operations.

Because of the importance of information technology to MnSCU operations, Internal Auditing should consider devoting a discrete component of its annual risk assessment process to IT. An audit plan for IT areas could either be incorporated into the annual internal auditing plan or created as a more strategic long-term plan, similar to the approach taken for external auditors.

*Recommendation:*

- *Internal Auditing should develop a process for assessing information technology risks and planning IT audits.*

***MANAGEMENT RESPONSE:*** *Concur.*

***RESPONSIBLE PARTY:*** *Deputy Director of Internal Auditing*

***EXPECTED COMPLETION DATE:*** *Should be addressed in the 2011 Audit Plan.*

**3. Internal Auditing should evaluate the effectiveness and contribute to the improvement of risk management process.**

*IIA Standard 2120 – Risk Management* requires the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. Enterprise risk management is a structured and coordinated entity wide governance approach to identify, quantify, respond to, and monitor the consequences of potential events. Implemented by management, enterprise risk management is evaluated by the internal auditors for effectiveness and efficiency.

Management bears the primary responsibility for identifying and managing risk and for implementing enterprise risk management in a structured, consistent, and coordinated approach. The Board has an overall responsibility for monitoring the risks and for gaining assurance that they are managed at an acceptable level. Internal auditors, in both their assurance and consulting roles, play a key role in evaluating the effectiveness of and recommending improvements to the risk management process.

MnSCU management reported its risk management system to the Board in November, 2009. The report made references to enterprise risk management as a concern to public higher education, but the report did not address the system's position on the risk management process, which may, in turn affect judgment about the effectiveness of the enterprise risk management.

*Recommendation:*

- *Internal Auditing should evaluate the risk management processes and provide objective assurance to the Board and senior management of the effectiveness of the risk management activities.*

**MANAGEMENT RESPONSE:** *Concur.*

**RESPONSIBLE PARTY:** *Executive Director of Internal Auditing*

**EXPECTED COMPLETION DATE:** *Should be addressed in the 2011 Audit Plan.*

## ***STATUS OF PRIOR ASSESSMENT OBSERVATIONS AND RECOMMENDATIONS***

### **1. The Office of Internal Auditing should enhance its quality assurance and improvement program.**

The March 2007 report contained three recommendations which have been addressed as follows:

- *The Office of Internal Auditing should ensure that the internal quality assessment provisions of Guideline 1300 are implemented in future years.*

**Resolution:** Guideline 1300 was developed and finalized. We are on track with the scheduling of periodic assessments as evidenced by this report.

- *The Office of Internal Auditing should explore the use of additional qualitative and quantitative measures that can be used to assess the efficiency and effectiveness of the internal audit activity.*

**Resolution:** The use of additional quantitative measures was incorporated into more recent annual reports to the Audit Committee and the performance review process. The most recent annual reports used additional statistics for reporting the status of prior audit findings. Performance reviews included additional measures for each audit coordinator's respective region such as distribution of time spent at individual colleges and universities and the frequency of responses to professional advice questions or engagements with reported fraud incidents. In addition, Internal Auditing integrated the use of a qualitative measure by performing a client satisfaction survey as a component of this internal self assessment.

- *The Executive Director of Internal Auditing should review the internal audit charter annually and discuss any proposed changes with the Audit Committee.*

**Resolution:** The Executive Director of Internal Auditing has performed an annual review of the audit charter; there have not been any proposed changes in recent years. However, as noted in the *Observation and Recommendation* section of this report, Policy 1D.1, which contains the audit charter is up for its five year review and should undergo a comprehensive review to ensure it conforms to current *IIA Standards* and Internal Auditing practices.

### **2. Improvement is needed in retaining evidence that demonstrates that final audit reports have been subject to internal review and offered for management response.**

The March 2007 report contained two recommendations which have been addressed as follows:

- *Appropriate evidence of supervision and review should be documented and retained. For example, evidence may consist of completing a checklist or preparing a memorandum specifying the nature, extent and results of the review.*

**Resolution:** Internal Auditing staff members are more cognizant of the need to document and retain appropriate evidence of supervision and review. A Review of engagement work papers was conducted as a part of this internal self assessment. There were not any instances noted where evidence of supervision and review was not documented or retained when it was required.

- *The engagement work papers should include support for communications. As previously suggested, this could include preparation of notes or memoranda documenting the discussions, or completion of a work paper checklist for providing evidence of communications with engagement clients.*

**Resolution:** Internal Auditing staff members are also more aware of the need to document and retain appropriate evidence of discussion of draft reports, proposed management letter comments or findings with college or university personnel. There were not any instances noted in the work paper review conducted for this internal assessment where evidence of communications with engagement clients was not documented or retained when it was appropriate to do so.

**3. Periodic assessments of information technology risks should be communicated to the Audit Committee as part of the audit planning process.**

The March 2007 report included one recommendation as follows that has not been resolved:

- *Internal Auditing should consider a more rigorous process for assessing information technology risks and planning IT audits.*

**Not Resolved:** See item number 2 in the *Observation and Recommendation* section of this report.