External Quality Assessment Review of University of Florida's Office of Internal Audit

May 30, 2017

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EXECUTIVE SUMMARY

Background

As requested by the Chief Audit Executive (CAE), the Office of Internal Audit (OIA) internal audit activity underwent an external quality assessment review (QAR) led by RSM US, LLP (RSM) and assisted by a team of independent reviewers from two peer institutions; University of West Florida and University of Tennessee.

The principal objectives of the QAR were to assess OIA's conformance to The Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate OIA's effectiveness in carrying out its mission as set forth in its charter and expressed in the expectations of the University of Florida's (the University) management, and to identify opportunities to enhance its management and work process, as well as its value to the University. This assessment is conducted at least every five years as suggested by the IIA.

Overall Summary / Highlights

We performed the QAR based upon the IIA's quality standards, specifically the section 1300 standards governing the maintaining of a Quality Assessment and Improvement Program. The IIA provides three categories to rate the overall quality of an internal audit department: Generally Conforms, Partially Conforms or Does Not Conform (see page 5 for full definitions). **Based on our work performed, we have assessed the University of Florida's Office of Internal Audit as *Generally Conforming* with the IIA's *Standards*.** This means policies, procedures and practices are in place to implement the standards and requirements necessary for ensuring independence, objectivity and proficiency of the internal audit function. The OIA is highly respected throughout the University, utilizes a well-managed, systematic approach to improve the University's operations and employs qualified personnel. For a detailed list of conformance to individual Standards, please see Attachment A. The QAR team identified two opportunities for further improvement, details of which are provided in this report.

We would like to thank the external team members for their assistance and input throughout this process:

- Betsy Bowers, Associate Vice President, Internal Auditing and Compliance, University of West Florida, and
- Sandy Jansen, Executive Director, Office of Audit and Compliance, University of Tennessee.

We would also like to thank the Office of Internal Audit for the opportunity to be of continued service to the University of Florida.

OBJECTIVES, SCOPE AND METHODOLOGY

The primary objective of the QAR was to evaluate the University of Florida's Office of Internal Audit conformance to the *Standards*. The work performed included the following:

- Reviewed and analyzed OIA's completed self-assessment advanced preparation document, Chief Audit Executive Questionnaire, along with detailed information and documentation.
- Submitted, reviewed and evaluated surveys to OIA staff and a representative sample of OIA customers. A summary of the survey results (without identifying survey respondents) has been furnished to OIA.
- Before commencement of the onsite work by the quality assessment team on April 10, 2017, RSM conducted a preliminary meeting with the CAE to gather additional background information, finalize the interview list to take place during the onsite fieldwork, and finalize planning and administrative arrangements for our QAR.
- Conducted 26 interviews including the President, Chief Operating Officer, Chief Financial Officer, Chief Information Officer, Chairman of the varying Audit Committees, Provost, others identified from Senior Management, external auditors, and a sample of OIA customers and OIA staff.
- Reviewed and evaluated a sample of audit reports, working papers and Audit Committee meeting minutes.
- Reviewed OIA's risk assessment and audit planning process, IA charter, organizational charts, audit personnel position descriptions, independence assertions, prior peer review report, audit tools and methodologies, engagement and staff management processes, and other relevant documents.

The quality assessment team met with OIA throughout the course of the review, including an exit conference on May 26, 2017. A facilitated roundtable discussion was held with the OIA staff including the CAE and the quality assessment team sharing experiences, approaches, best practices and other insights to consider further to enhance the OIA. The internal audit activity environment where we performed our review is well-structured and progressive where IIA standards are understood and used by management to provide useful audit tools and implement appropriate practices. We have outlined improvement opportunities below and in more detail within the report that are intended to build on the strong foundation in place at the University.

SUMMARY OF RESULTS

The IIA has defined two broad categories of Standards against which internal audit departments are assessed: Attribute Standards and Performance Standards. The IIA's Attribute Standards focus on an internal audit department's positioning within the organization, its conduct and the continuous improvement efforts practiced by the internal audit department. The following areas were included within the scope of our review:

	Results of Assessment		
Attribute Standards	**GC**	**PC**	**DNC**
1000 – Purpose, Authority and Responsibility: Reviewed the Internal Audit Charter and Audit Committee Charter that define the purpose, authority and responsibility of the Internal Audit function.	✓		
1100 – Independence and Objectivity: Reviewed the independence and objectivity of the department as a whole and of individuals within Internal Audit.	✓		
***1200 – Proficiency and Due Professional Care*:** Reviewed Internal Audit's processes for making certain that engagements were proficiently performed and that Internal Audit applied the care and skill expected of a reasonably prudent and competent internal auditor.	✓		
1300 – Quality Assurance and Improvement Program: Reviewed the program in place to provide quality assurance and continuous improvement within the Internal Audit department.	✓		

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

SUMMARY OF RESULTS (CONTINUED)

The IIA's Performance Standards focus on an internal audit department's planning, execution and reporting processes in place to effectively address the organization's audit objectives. The following areas were included within the scope of our review:

Performance Standards	Results of Assessment		
	GC	PC	DNC
2000 – Managing the Internal Audit Activity: Reviewed procedures and practices being used to make certain that the Internal Audit department adds value to the organization, including using risk-based plans to evaluate audit priorities, adequately managing resources to perform audits, coordinating internal audit and external audit activities to prevent unnecessary duplication of procedures, and providing periodic updates to the Board and senior management regarding results of ongoing Internal Audit activities	✓		
2100 – Nature of Work: Reviewed how Internal Audit evaluates and contributes to the improvement of risk management, control and governance processes within the OIA.	✓		
2200 – Engagement Planning: Reviewed procedures used by Internal Audit staff to develop and document a plan for each review, including the scope, objectives, timing and resource allocations.	✓		
2300 – Performing the Engagement: Reviewed procedures used by Internal Audit to adequately identify, analyze, evaluate and document adequate information to achieve the engagement's objectives.	✓		
2400 – Communicating Results: Reviewed procedures used by Internal Audit to communicate engagement results throughout the organization.	✓		
2500 – Monitoring Progress: Reviewed procedures used by Internal Audit to monitor the disposition of control and compliance observations as well as process and cash flow improvement opportunities communicated to management.	✓		
2600 – Communicating the Acceptance of Risks: Reviewed procedures used by Internal Audit to address differences in the assessment of residual risk between Internal Audit and Senior Management.	✓		

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DEFINITION OF ASSESSMENT RATINGS

Using the IIA's evaluation methodology, we have assigned a rating of GC (Generally Conforms), PC (Partially Conforms) or DNC (Does Not Conform) to each area assessed. The following definitions for these ratings, as taken from the IIA's methodology guidance, describe each of these ratings categories.

Categories of Ratings

GC — "Generally Conforms" means the evaluator has concluded that the internal audit department's relevant structures, policies, and procedures, as well as the processes by which they are applied, comply with the requirements of the individual *Standard* or element of the *Code of Ethics* in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual *Standards* or elements of the *Code of Ethics*, and partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the internal audit department has not implemented the *Standards* or the *Code of Ethics*, is not applying them effectively, or is not achieving their stated objectives.

PC — "Partially Conforms" means the evaluator has concluded that the internal audit department is making good-faith efforts to comply with the requirements of the individual *Standard* or element of the *Code of Ethics*, section, or major category, but has fallen short of achieving some of their major objectives. These will usually represent some significant opportunities for improvement in effectively applying the *Standards or Code of Ethics* and/or achieving their objectives. Some of the deficiencies may be beyond the internal audit department's control and may result in recommendations to senior management or the board of the organization.

DNC — "Does Not Conform" means the evaluator has concluded that the internal audit department is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual *Standard* or element of the *Code of Ethics*, section, or major category. These deficiencies would usually have a significant negative impact on the internal audit department's effectiveness and its potential to add value to the organization. They may also represent significant opportunities for improvement, including actions by senior management or the board.

OPPORTUNITIES

Opportunities

1. ***Current Trends in Internal Audit*** **–** We have noted recent trends in the Internal Audit profession which we have discussed with the CAE and senior management. These could at some point impact and/or potentially benefit the University and the function. They include:

   Enterprise Risk Management (ERM): Currently, the University does not utilize an ERM function. While the OIA successfully employs a traditional audit risk assessment, which includes system and institutional risks, the OIA could leverage an ERM function in its risk assessment if such a function was developed by the University. An ERM function would include an assessment of the organization's overall governance structure, and follow industry trends whereby risk assessments are reflective of an all-inclusive view of operational, strategic, and reputational risks. This process could elevate the current risk assessment to a best practice. The OIA could leverage the University's ERM function when establishing its annual risk assessment and audit plan. (Standard 2120)

   Utilizing Subject Matter Experts (SMEs): Many Internal Audit functions are relying on contracted SMEs for certain audit areas requiring deep expertise. The OIA staff have the knowledge to complete current planned audits, however should the OIA choose to pursue specialized areas to audit, (i.e., information technology, cybersecurity, forensic investigations, regulatory matters,) an SME with in-depth knowledge of the subject and an appropriate level of expertise in performing a specialized job, task or skill could be required. During the course of audit planning, the OIA may identify engagements which would best be served by an individual with technical or specialized knowledge for a particular scope. In these cases, we recommend the University consider and budget to utilize SMEs for engagements where expertise is crucial to achieving the audit objective. (Standard 1210)

2. ***Quality Assurance and Improvement Program (QAIP)*** **–** Annually the OIA completes a comprehensive review of the accomplishments of the Internal Audit Function. The review is presented to the OIA staff and includes updates and discussion on independence, ethics, reporting relationships, responsibility, results of internal quality reviews, and other aspects of the function. The CAE also discusses the results of this review informally with the Audit Committee Chair; however, the QAIP results are not presented to the Audit Committee. We recommend the OIA expand their QAIP review to include a presentation to the Audit Committee on an annual basis, which should be recorded in the Audit Committee meeting minutes. We recommend the CAE formally communicate the results of the QAIP to senior management, OIA customers, and the Board of Trustees once the results have been reported to the Audit Committee. (Standard 1320)

ATTACHMENT A – *STANDARDS* EVALUATION SUMMARY

Quality Assessment Evaluation Summary – Overall Evaluation		GC	PC	DNC
Overall Evaluation		✓		
Quality Assessment Evaluation Summary – Major / Supporting Standards		**GC**	**PC**	**DNC**
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognition of the Definition of Internal Auditing	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board/Audit Committee	✓		
1120	Individual Objectivity	✓		
1130	Impairments to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care	✓		
1210	Proficiency *See Improvement Opportunity #1*	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Program	✓		
1310	Requirements of the Quality Assurance and Improvement Program	✓		
1311	Internal Assessments	✓		
1312	External Assessments	✓		
1320	Reporting on the Quality Assurance and Improvement Program *See Improvement Opportunity #2*	✓		
1321	Use of "Conforms with the *International Standards for the Professional Practice of Internal Auditing*"	✓		
1322	Disclosure of Nonconformance	✓		
2000	Managing the Internal Audit Activity	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibilities for Internal Audience	✓		

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ATTACHMENT A – *STANDARDS* CONFORMANCE SUMMARY (CONTINUED)

Quality Assessment Evaluation Summary – Major / Supporting Standards (Continued)		GC	PC	DNC
2100	Nature of Work	✓		
2110	Governance	✓		
2120	Risk Management *See Improvement Opportunity #1*	✓		
2130	Control	✓		
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of "Conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*"	✓		
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2500	Monitoring Progress	✓		
2600	Management's Acceptance of Risks	✓		
	IIA Code of Ethics	✓		

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RSM US LLP
7351 Office Park Place
Melbourne, Florida 32940
321.751.6200
www.rsmus.com

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