College of William & Mary

And

Richard Bland College

INTERNAL AUDIT ACTIVITY

QUALITY ASSURANCE REVIEW REPORT

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Prepared by:

Richard Tarr, CIA, CISA

3035 Dawley Avenue

Orlando, FL 32806

Ph: 407.896.2760

E-mail: rtarr@racar.com

Executive Summary

Overview

As required by the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing,* (*IIA Standards*) an external quality assurance review was conducted of the internal audit activity at the College of William and Mary and Richard Bland College (W&M). The primary intent of the review was to provide reasonable and objective assurance that the internal audit work being performed at W&M meets the requirements of the *IIA Standards.* A secondary objective was to identify whether or not there are opportunities that would enhance the economy and efficiency of the audit process and improve the value of what the internal auditing activity contributes to W&M.

The scope of the review included an evaluation of:

- The department's reporting relationship and its communication with the Board of Visitors and senior management at W&M;
- The department's independence and the objectivity of the audit work performed;
- Existing internal audit policies and procedures;
- The department's risk assessment and annual audit planning process;
- The planning process for individual audit projects;
- The audit methodologies used in performing the work;
- A representative sample of audit workpaper files and reports;
- The workpaper documentation that supported the work performed;
- The support for the conclusions and recommendations in the audit reports;
- How the results of audit are communicated;
- The procedures for following up on audit recommendations; and
- The knowledge, skills, discipline, and training of the staff.

Interviews were conducted with, among others: the Chair of the Committee on Audit of the Board of Visitors; the President; The Provost; the Vice President for Finance; the Vice President for Administration; the Vice President for Strategic Initiatives; the Vice President for Student Affairs; the Director of Internal Audit; and the audit staff.

Opinion

Based on the work outlined above, it is the opinion of the reviewer that the internal audit activity at the College of William and Mary and Richard Bland College **fully complies** with the IIA *International Standards for the Professional Practice of Internal Auditing*.

This opinion, representing the best possible evaluation, means that there are in place relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the *IIA Standards* in all material respects.

Observations

The Internal Auditing Department at W&M consists of the Director and three staff positions. The Director reports directly to the Committee on Audit of the Board of Visitors. This reporting relationship provides the very best opportunity for audit activities to be independent and objective. Reporting directly to the Board establishes the department as the administration's most objective resource on campus for advisory and evaluation projects.

The Director is a CPA (Certified Public Accountant); a CISA (Certified Information Systems Auditor); has an EdD in Education Policy, Planning, and Leadership from the College of William and Mary; and has over 25 years of internal auditing experience. Interviews confirmed that he is well respected and has a good working relationship with the

Committee on Audit and the administration at W&M. The audit staff are extremely well qualified and experienced and are also well respected. All three are CPA's and together have an average of over 20 years of auditing experience, with the majority of that experience at W&M.

The department has a well-crafted Audit Charter that authorizes the audit department unrestricted access to all activities, properties, personnel, and records of the colleges to the fullest extent that the law allows.

As required by *IIA Standards,* the Director develops an annual risk assessment that, along with input from the presidents, provosts, vice presidents and others, is used to create an annual audit work plan. This work plan is then presented to the Committee on Audit for their approval. Typically the projects on the risk based plan would be the majority of the work that would be expected to be undertaken by the department. However, at W&M almost 80% of the department's resources are used to support ARMICS (Agency Risk Management and Internal Control Standards), the APA (Auditor of Public Accounts), and management and Board special project requests. More staff resources (30%) are being used in support of ARMICS than are used to conduct risk based audits. The Committee on Audit may want to examine whether this use of staff resources is what they believe is appropriate and that the coverage of the high risk areas that were identified in the risk assessment is adequate.

The interviews conducted with management indicated that they strongly support the internal audit function and they believe that the scope and type of projects that are undertaken by the department are adding value to the organization and its mission. A confidential survey of audit customers conducted during the review indicated that over 99% of those surveyed rated the department from good to excellent on 18 different criteria. This speaks very well of the professionalism and capabilities of the Director and the audit staff.

A sample of workpapers were reviewed and showed that the staff is proficient and knowledgeable in the areas they audit. While the methods being used to index the electronic workpaper files was, at times, hard to follow, the documentation in the workpapers was professionally done and supports a level of professional care that is appropriate for the complexities of the work being performed. The detail in the workpapers shows that audit projects are well planned; the audit programs outline the audit steps to be performed and are referenced to the documentation that evidences the work was performed; and the work performed supports what is communicated in the audit reports. There was evidence that the workpapers and the audit reports are reviewed by the Director before any reports are issued.

While the internal audit activity at W&M fully complies with the *IIA Standards*, the following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving the value and the effectiveness of the audit work being performed.

The implementation of these recommendations will enhance the internal audit activity College of William and Mary and Richard Bland College and improve the value, efficiency and effectiveness of the internal auditing work in the future.

Richard H. Tarr, CIA, CISA

Recommendations

1. <u>Provide the Committee on Audit with a status of audit recommendations</u>

Following up on audit recommendations that have been agreed upon is required by the *IIA Standards*. Overseeing that management is making an appropriate and timely effort to implement recommendations to correct control weaknesses is an important part of the Board of Visitor's governance responsibilities.

While the department does follow up on audit recommendations, the results of that work have typically not been formally shared with the Board. A Semi-annual report would enable the Committee on Audit to be informed on a timely basis when audit recommendations are not being implemented as agreed to by management.

Status reports could be a simple spreadsheet that includes: a brief description of the recommendation; the date that management agreed to have the recommendation implemented; whether or not it has been implemented; and the name of the person directly responsible for implementing the recommendation. These reports would be even more effective if the recommendations were color coded as to their implementation status. "Completed" recommendations could be color coded as green, "in process" as yellow, and "past due" recommendations could be color coded as red. This would enable the Audit Committee to quickly focus on the recommendations that are past due and the areas about which they should be concerned.

Response:

I agree. I will discuss with the Audit Committee and format the report as they direct. Estimated completion date: November 1, 2011.

2. **<u>Resume conducting post audit surveys and annually share the results with the Committee on Audit.</u>**

The department should resume conducting post-audit surveys of their audit customers and summarize the results and share them with the Committee on Audit annually. These surveys would provide feedback to the Director on, among other things: the department's professional proficiency in conducting the audit; the value of the audit recommendations; and how the audit process might be improved. These surveys would also provide the audit staff feedback on their performance, which can be a positive motivator and an incentive for the staff to continuously improve their skills.

Response:

I agree. I will discuss with the Audit Committee and format the survey and report as they direct. Estimated completion date: November 1, 2011.

3. **<u>Develop an indexing standard for workpaper documentation.</u>**

Workpapers document the principal evidence and information obtained as well as the analysis that supports the basis for the observations and recommendations contained in the audit reports. It is important that the workpapers contain sufficient documentation and be organized so that they can "stand on their own" in supporting the conclusions and recommendations that are contained in audit reports. The current techniques being used rely too heavily on inconsistent file titles and staff memory as to which files support which projects for which periods. While there is no question the work is being professionally conducted, and appropriately reviewed, the workpaper files need to be organized and indexed using a method that can be more easily followed.

- Implement a numeric indexing method for the department's electronic workpaper folders and files. The index should identify the year and a unique identifier for projects within a year that can then be used to cross reference projects from the audit work plan, to the workpaper files, to the audit reports.

- Implement a standard workpaper sub-index scheme within the workpaper file folders that can identify the individual files that document the procedural steps that were performed within each project.

- Develop a "lead sheet" within each workpaper folder that documents the Director's review of the individual workpaper files.

- Include a quality assurance checklist in the workpapers that can be used as a guide by each auditor in documenting their review of the workpaper files at the end of each project. This will help ensure that when an audit project is completed all the necessary documentation contained in the workpaper folders.

Response:

I agree. Estimated completion date: August 1, 2011.