The Role of Internal Audit in the Control Environment

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Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The mission of the University of California (UC) internal audit program (IA) is to provide the regents, president, and campus chancellors independent and objective assurance and consulting services designed to add value and to improve operations. It does this by assessing and monitoring the campus community in the discharge of their oversight, management, and operating responsibilities. Internal audit brings a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board of directors.
Audits are assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples include financial, performance, compliance, systems security and due diligence engagements.

Advisory services, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include reviews, recommendations (advice), facilitation, and training.

Investigations are independent evaluations of allegations generally focused on improper governmental activities including misuse of university resources, fraud, financial irregularities, significant control weaknesses and unethical behavior or actions.

External audit coordination involves assisting the campus to fulfill audit requirements that arise from its role as a recipient of public and other extramural funds, as well as obligations from business contracts, and to cooperate fully with external auditors.
The scope of IA work is to determine whether UC’s network of risk management, control, and governance processes, as designed and represented by management at all levels, is adequate and functioning in a manner to ensure:

- Risk management processes are effective and significant risks are appropriately identified and managed.
- Ethics and values are promoted within the organization.
- Financial and operational information is accurate, reliable, and timely.
• Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
• Resources are acquired economically, used efficiently, and adequately protected.
• Programs, plans, and objectives are achieved.
• Quality and continuous improvement are fostered in the organization’s risk management and control processes.
• Significant legislative or regulatory compliance issues impacting the organization are recognized and addressed properly.
• Effective organizational performance management and accountability is fostered.
• Coordination of activities and communication of information among the various governance groups occur as needed.
• The potential occurrence of fraud is evaluated and fraud risk is managed.
• Information technology governance supports UC strategies, objectives, and the organization’s privacy framework.
• Information technology security practices adequately protect information assets and are in compliance with applicable policies, rules and regulations.
How are audit topics selected?

- Risk Assessment
- Audit Plan Development
- Annual Audit Process
- Audit Plan Review
- Audit Plan Execution
- Quarterly Audit Plan Refinement
- Gather Information
- Risk Review
- Amend Audit Plan

- Discussions with Management
- Committee Participation
- Investigation Activities
- Advisory Activities
- External Reports
- Assurance Activities
- Enterprise Risk Management Activities

Enterprise Risk Management Activities

Quarterly Audit Plan Refinement

Gather Information

Risk Review

Amend Audit Plan
What can I expect during the course of an internal audit?

Audit Notification
- Notification of Intent to Audit
- Preliminary scheduling discussions and document requests
- Establishing key client contacts

Preliminary Audit Survey
- Conducting a risk assessment
- Developing an Audit Program

Fieldwork Entrance Conference
- Sharing the Audit Program with the Client
- Establish protocols and coordination for execution of fieldwork

Fieldwork Detailed Appraisal
- Analytical Reviews
- Interviews
- Detailed Testing
- Status Updates on Findings

Ending Fieldwork
- Sharing Preliminary Results with Client

Reporting
- Drafting Report
- Obtaining Management Action Plans
- Finalizing Report
- Exit Meeting

Follow-Up
- Client Satisfaction Survey
- Monitoring Completion of Action Plans
- Reporting to Campus Audit Committee and UCOP
Examples of Recent UC Control Environment Projects

- Globalization and International Engagement - UCB
- Human Resources Service Center, General Services – UCLA
- Non-Voluntary Separation Practices – UCB
- Fraud Risk Management – All
- Control Environment Survey – UCSD
- Performance Management
- Annual Report on Executive Compensation
- Conflict of Interest and Conflict of Commitment – All
- IT Planning and Organization – UCB
- Office of the Chancellor – University Communication - UCI
How we can help you...

- We will make an objective assessment of your operations, and share ideas for best practices.
- We will provide counsel for improving controls, processes and procedures, performance, and risk management.
- We will suggest ways for reducing costs and enhancing revenues.
- We will deliver competent consulting, assurance, and facilitation services.
Plus, we will…

• Ensure accuracy of records.
• Provide cost analysis of historical trends.
• Evaluate internal controls.
• Support the external auditors.
• Document and analyze processes and costs.
• Analyze task performance in functional areas.
Plus, we will…

- Survey customers to determine satisfaction.
- Evaluate costs and benefits.
- Benchmark performance and best practices.
- Confirm compliance with laws, regulations, policies, and procedures.
- Ensure compliance with contract terms and conditions.
Plus, we will…

• Compare records with physical assets.
• Reconcile independent and corporate records.
• Review new system development projects.
• Evaluate computer and software application controls.
• Investigate alleged improper governmental activities.
What does this mean to you?

You have at your fingertips:

- A coach.
- An advocate.
- A risk manager.
- A controls expert.
- An efficiency specialist.
- A problem-solving partner.
## UC Internal Audit Organization Chart

### The Regents’ Committee on Compliance and Audit

**UC President**

M. G. Yudof

**SVP, Chief Compliance and Audit Officer, S. Vacca**

**UCB**

Chancellor Birgeneau

**UCD**

Chancellor Katehi

**UCI**

Vice Chancellor Brase

**UCLA**

Vice Chancellor Olsen

**UCM**

Chancellor Leland

**UCR**

Provost and Executive VC Rabenstein

**UCSB**

Associate Vice Chancellor Cortez

**UCSC**

Vice Chancellor Valentino

**UCSD**

Vice Chancellor Matthews

**UCSF**

Senior Vice Chancellor Plotts

**LBNL**

Laboratory Director Alivisatos

### Professional Staff

- **Systemwide & UCOP**
  - M. Hicks (2.5)
- **UCB**
  - W.L. Riley (6)
- **UCD**
  - J. Maher (11)
- **UCI**
  - B. Nielsen (8)
- **UCLA**
  - E. Pierce (25.8)
- **UCM**
  - T. Kucker (1)
- **UCR**
  - M. Jenson (5)
- **UCSB**
  - R. Tarsia (4.8)
- **UCSD**
  - B. Long (4)
- **UCSF**
  - R. Catalano (8)
- **LBNL**
  - T. Hamilton (5)

Total Professional Staff, including the Director, is in parentheses. Total Authorized Professional Positions = 95.2 as of year end FY 2011-12