Role of the Auditor in Strengthening Business Practices

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Agenda

- UC Internal audit mission
- Definitions
- IA Benefits and Lines of Business
- Internal audits
  - Annual Planning
  - Internal Audit Process
  - Typical Department Scope
  - IA Outcomes
- Advisory services
- External audits
The mission of internal audit is to assist The Board of Regents and University management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to evaluate and promote the system of internal controls, including effective and efficient operations.
Definition of Auditing (generic)

• A formal process where activities and records are examined and compared to predetermined audit criteria such as:
  – Federal laws and regulatory requirements
  – Contract terms and conditions
  – Policies and procedures
  – Management goals and objectives
Definition of Internal Auditing

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.

UC Internal Audit is authorized to have full, free and unrestricted access to information including records, computer files, property, and personnel of the University. Audit is free to review and evaluate all policies, procedures, and practices for any University activity, program, or function.
Internal Audit can be a helpful resource to you.
Benefits of Internal Audit Services

• Practical, business-oriented advice
• Independent and objective viewpoint
• Local knowledge of policies, business processes, information systems, campus culture and environment
• Conduit to other resources & guidance
• Good preparation for external audit
Internal Audit – Lines of Business

• Audits
  – Planned Audits – Based on Risk
  – Supplemental Reviews/Management Requests

• Advisory Services
  – Planned Advisory Service Projects
  – Small Consultations (advice)
  – Re-engineering Projects/System Redesign
  – Committee/Workgroup Participation
  – Internal Control Education

• External Audit Coordination

• Investigations
Audits - How Are Areas/Topics Selected for Internal Audit?

- Defined Annual Risk Assessment and Planning Process
- Projects Requested by the Regents and/or Office of the President
- Campus Management Requests
The Internal Audit Process

1. **Project Initiation**
   - Notification
   - Entrance Conference – discussion regarding business risk and audit scope

2. **Preliminary Survey**
   - Assessment of the internal control environment
   - Risk assessment to determine audit emphasis - ongoing discussions about risk
   - Audit program development

3. **Fieldwork**
   - Evaluation of department information to achieve audit objectives, i.e., determine whether internal controls function as intended

4. **Results**
   - Draft Report
   - Exit Conference – concurrence regarding management corrective actions
   - Final Report

5. **Follow-Up**
   - Implementation of Management Corrective Actions – IA Validation and Closure
Typical Scope of a Department Internal Audit

The scope of the work of internal audit is to ascertain whether campus and health sciences internal control processes, as designed and represented by management, are adequate and functioning effectively.

An Internal Audit may address one or more of the following areas:

- **Information Systems**
  - Applications
  - Security
  - Access
  - Roles and workflow
  - Data Privacy

- **Transactional Processes**
  - Payroll/Personnel
  - Purchasing
  - Equipment
  - Travel
  - Contracts & Grants

- **Programmatic Issues**
  - Business Methodologies
  - Operational efficiency
  - Research and Healthcare practices
  - Affiliations

- **Compliance Concerns**
  - Billing
  - Research Compliance
  - Federal & State Regulations
Internal Audit Outcomes – Opportunities for Improvement

• Examples
  • Separation of duties
  • Approvals & delegations of authority
  • Supporting documentation
  • Reconciliations and monitoring controls
  • IT security controls
Definition of Advisory Services

Advisory and related client service activities, 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 advice, facilitation, training and participation in on-going committees.
## Audits vs. Advisory Services

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<thead>
<tr>
<th>Requirement or Attribute</th>
<th>Audit</th>
<th>Adv. Svc.</th>
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<tbody>
<tr>
<td>Auditor independence &amp; objectivity</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Review objectives and scope</td>
<td>IA with Mgmt. Input</td>
<td>Mgmt. Request</td>
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<tr>
<td>Project processes</td>
<td>Formal &amp; Transparent</td>
<td>Less Formal</td>
</tr>
<tr>
<td>Project timelines</td>
<td>3-4 months</td>
<td>Varies but typically shorter</td>
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<tr>
<td>Identification of risks – feed forward to audit planning process</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Reporting</td>
<td>Formal</td>
<td>May be informal</td>
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The External Audit Process

- Audit Plan
- Initial Discussions
- Formal Notice
- Opening Conference
- Field Work
- Closing Conference
- Interim Findings or Draft Report
- Recommendations (or Action Plan)
- Final Report
- Follow-up Audit
Types of External Audits - Generic

- Compliance, financial, operational, investigative, information systems, health care, construction
- Who performs audits: federal sponsors; state sponsors; contract auditors (CPA firms); private sponsors
- GAO: financial, performance

Expect more external reviews.
Offices of Inspector General - Categories of Work Performed

- Audits
- Data Analytics Reviews (NSF)
- Inspections
- Investigations

Be familiar with the various external audit types and understand the typical process involved.
Federal Contract Audit Types

- Claimed Cost
- Pre-award Audit
- Indirect Cost Audit
- General Control and Compliance Audit (A-133)
Other Points to Remember for External Reviews

- Process determined by the Auditor
- Rights of auditors and UC participants
- Central coordination helps
  - Internal Audit; Steering Committee
- Involve counsel, public relations as needed.
- Consider other UC campuses, consultants
Who are the Audit Directors?

Berkeley – Wanda Lynn Riley
Davis - Jeremiah Maher
San Francisco – Rick Catalano
Santa Barbara – Robert Tarsia
Santa Cruz – Barry Long
Berkeley Lab – Terrence Hamilton
Irvine – Bent Nielsen
Los Angeles – Ed Pierce
Riverside – Greg Moore
San Diego – David Meier