Annual Risk Assessment and Audit Plan
2013/14

Internal Audit Department
September 25, 2013

Table of Contents

Introduction

Each year, the Internal Audit Department of the University of North Carolina at Chapel Hill develops an audit work plan based on a university-wide assessment of risk. This approach is in keeping with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards) and the Internal Audit Act (NCGS § 143-746) which requires internal audit functions in NC State agencies and institutions to comply with the IIA Standards. Also, basing audit work plans on risk helps ensure that audit resources are allocated effectively and efficiently and in a way that best helps manage and the Board of Trustees provide governance and fulfill the University's mission.

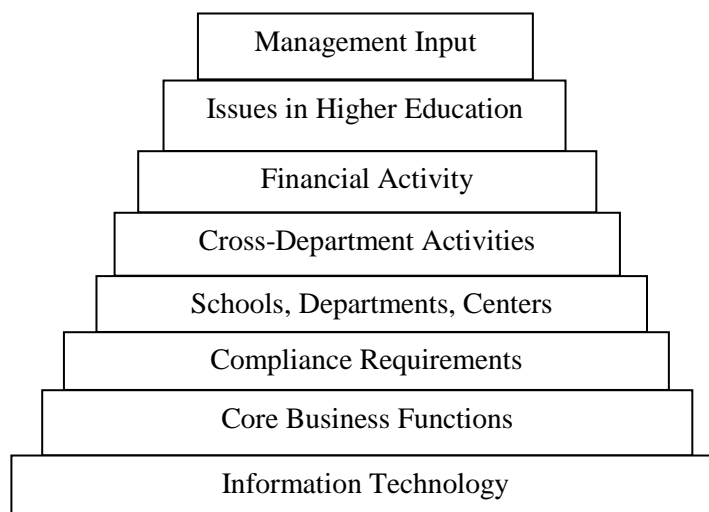The primary objectives of the risk assessment process are to:

- Ensure compliance with IIA Performance Standard 2010 – Planning which states: "The chief audit executive must establish risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals" and with North Carolina's Internal Audit Act;

- Gather information about the organizational structure of the University, its operations, and its finances and about trends and recent concerns in higher education;

- Identify expectations and risk concerns of University management and members of the Business and Infrastructure Committee of the Board of Trustees;

- Identify opportunities for sharing audit resources and avoiding duplication of work by coordinating audit efforts;

- Develop an audit work plan based on risks and opportunities identified during the assessment process; and

- Present the work plan and results of the risk assessment to the Chancellor of the University of North Carolina at Chapel Hill and the Business and Infrastructure Committee of its Board of Trustees for review and approval.

While the initial work plan is developed based on a formal risk assessment process, risks change throughout the year. Therefore, we monitor changes at the University and in higher education during the year and make revisions the work plan as needed.

Risk Assessment Process

The risk assessment process begins with a review of the organization structure of the University and the identifying by various missions, functions, and financial activities of individual departments and other units. Then, core business practices and supporting information technology activities and resources are identified as are key compliance issues and "hot topics" in higher education. Discussions are held with senior management and the Chairperson of the Business and Infrastructure of the Board of Trustees to obtain information about their expectations and concerns. This information was combined and analyzed to develop an audit universe.

Audit Universe Model

Management Input

Issues in Higher Education

Financial Activity

Cross-Department Activities

Schools, Departments, Centers

Compliance Requirements

Core Business Functions

Information Technology

Risk Components

1. Strategic risks – relate to mission and goals of the University
2. Financial risks – relate to stewardship and safeguarding of resources
3. Operational risks – relate to processes used to achieve mission and goals
4. Compliance risks – related to laws, rules, regulations, and other requirements
5. Reputational/service risk – relate to public image and the impact of service failure

Step 1: Update and Create Audit Universe

- Identify core business functions and information technology activities – these functions, systems, and activities support most operations at the University;

- Review organizational charts to identify individual operating units and the reporting relationships of these units;

- Review information about individual units to determine their nature and primary purpose;

- Identify unique activities in school, departments, and centers and cross-departmental activities that are not core business functions but should be audited separately;

- Review revenue and expenditures for each organizational unit and unique activity;

- Determine if there have been significant changes in compliance requirements;

- Identify major trends and concerns in higher education;

- Create population of auditable units.

  NOTE: Some units, such as schools, departments, and centers, will be combined into pools for risk assessment purposes. Each year some of these units will be selected for audit based on recent events and management feedback.

  Also, some IT activities, such as servers, periodic access reviews, disaster recovery and business continuity planning, etc., exist and are managed in many units. We initially assessed these activities as single units. Initial audits of these activities will assess university-wide governance of the activities and identify where these activities are managed. At that point, risk associated with these activities will be re-assessed at the functional level. In addition, some IT activities such as disaster recovery planning and system access reviews will be included in each non-IT audit.

Step 2: Assess Risk

- Interview the Chairman of the Business and Infrastructure Committee of the Board of Trustees and key members of University management to identify their views of challenges and opportunities for the University and to get suggestion for items to be included in the audit work plan;

- Consider risk factors:
    - Criticality of operations;

- o   Impact of a service delay or failure;
- o   Sensitivity of information managed;
- o   Extent of regulation;
- o   Changes in management or the operating environment;
- o   Recent events and results of past audits (internal or external);
- o   Quality of internal controls
- o   Public or political sensitivity; and
- o   Financial characteristics; and likelihood and impact of risks facing an area.

- Assign relative risk to auditable units: high risk, medium risk; moderate/low risk.

Step 3: Develop Audit Work Plan

Determine available audit hours based on size of audit staff, available work hours per staff member, and estimates of time for administrative activities such as training, meetings, and leave.

Allocate blocks of time for unplanned audits, investigations, advisory work, and mandatory or annual projects.

To select items for the rest of the 2013/14 audit work schedule we considered:

- Available audit hours;

- Projects from the 2012/13 audit work plan that needed to be carried forward;

- Specific requests by management or members of the Business and Infrastructure Committee;

- Results of UNC FIT reviews and how well key performance indicators are met;

- Date and results of recent audit (internal or external);

- Nature and timing of any recent or anticipated changes in an area (such as a system conversion, new financial management, extensive process revisions, etc.); and

- Recent events at the University and at other colleges and universities that have raised the visibility and sensitivity of certain activities.

After possible units for the 2013/14 audit work schedule were selected, hours were budgeted for each project based on nature of the area audited and the anticipated audit work in an area.

If necessary, possible units were added or dropped in order to have a work plan that fit available hours

Step 4: Finalize the Work Plan

Submit the risk assessment to the Chancellor and Business and Infrastructure Committee for review and approval.

Submit the approved plan to General and Administration and the Council of Internal Auditing