

THE ROLE OF INTERNAL AUDITING AT WINSTON-SALEM STATE UNIVERSITY

Background

The internal audit department at Winston-Salem State University was organized and developed in January 1992. Prior to that point, all audit responsibilities were relegated to the Office of the State Auditor. At the onset, the internal auditor reported to the Chancellor and the internal audit activities were focused upon day-to-day developments within the school. The first annual audit plan was developed for the fiscal year which ended on June 30, 1993. For the next decade, internal audit continued to undergo change notwithstanding the changes that were taking place within organizational management. The internal changes resulted in the clear definition of the reporting responsibilities of the internal auditor and the development of an audit committee. Currently, the internal audit department has administrative reporting responsibilities to the university's Chancellor and functional responsibilities to the university's Board of Trustees through the Audit Committee. The annual audit plan has become a management tool. To insure the organization's goals and objectives are being met internal auditing works closely with the university's Chancellor and Cabinet.

Internal auditing as an assurance and consulting activity

Internal auditing by definition is an independent appraisal and consulting activity designed to add value and improve an organization's operations. Internal audit functions by bringing an organized, systematic and disciplined approach to examining and evaluating an organization's internal operations, risk management, control and governance processes. Internal auditing, as an assurance and consulting activity is being regarded more constructively as a critical function facilitating the accomplishment of organizational goals and objectives by adding value to organizational management. In sum, internal auditing adds value to an organization that often cannot be quantifiably measured.

Audit plans, execution, communication and reporting

For the fiscal year which ended on June 30, 2004, a decade since the development of the first annual internal audit plan, substantial effort had been expended to restructure the university's internal audit function. For the first ten years, it had been a common practice within the internal audit function to present the board and management with a catalog of possible audits during a given period, commonly referred to as a strategic or internal audit annual plan. However, recent research conducted by the Research Foundation of the Institute of Internal Auditors, Inc. and other related bodies, provides evidence that this approach has the tendency to ignore other review function activities such as legal compliance and quality management while generating cyclic review programs. Beginning with the 2005 fiscal year, the framework established by the Winston-Salem State University audit department is referred to as an internal audit and assurance

strategy. This audit and assurance strategy delegates the responsibilities associated with risk management to the Chancellor and management of the organization. Therefore, the ownership of the audit and assurance strategy has been similarly assigned to the Chancellor, management and the board.

An audit and assurance strategy is viewed as a comprehensive model designed to enhance an internal audit department's role in contributing towards helping an organization manage the risks that would threaten the achievement of its objectives. An audit and assurance strategy also supports the goals and objectives of internal auditing. This strategy takes into consideration internal audit's role relating to each university activity and core process. Similarly, consideration is taken as to whether the university activity presents any threats to the internal auditor's independence and objectivity. The audit and assurance strategy should:

- Give assurance on risk management processes;
- Give assurance that risks are correctly evaluated;
- Evaluate risk management processes;
- Evaluate the reporting of key risks, and;
- Review the management of key risks.

The 2004-2005 internal audit and assurance strategy is offered here to illustrate the manner in which the annual audit plan is being structured. (see attachment A)

Execution of audit plans

To effectively carryout audit plans, internal audits are to be performed in conformance with the *Standards for the Professional Practice of Internal Auditing*. The Winston-Salem State University Internal Audit Manual outlines the performance of internal audit work.

Project planning

The planning of an internal audit may consume a significant portion of audit time and resources. Documentation of audit planning should include:

1. establishing the audit objectives and scope of work;
2. obtaining background information about the activities subject to audit;
3. determining the resources necessary to perform the audit;
4. communicating with all who need to know about the audit;
5. performing, as appropriate, on site survey to become familiar with the activities and controls subject to audit to identify areas for audit emphasis;
6. writing the audit program; and,
7. determining how, when and to whom the audit results will be communicated.

Communicating

Communicating with the auditee

First, the director of internal audit must communicate to the Chancellor the need or internal request for an internal audit. The internal auditor must identify who to include in the initial communication after the Chancellor has been informed of the audit. In most

cases this will involve the vice chancellor responsible for the area subject to review. The internal auditor must also discuss the pending audit with the individuals identified through the initial communication. Items discussed in the meeting should include the audit purpose, scope, dates of fieldwork and an estimated completion date. The internal auditor should also include the extent of auditee resources needed and listen to any concerns the vice chancellors or managers may have concerning the pending audit.

Reporting

Communicating results

Before releasing the audit report, the internal auditor will:

- a. ensure that all conclusions and recommendations made in the report are supported in the working papers;
- b. proof the report to verify that there are no typographical or grammatical errors;
- c. when commenting on a finding, include criteria, condition, cause, effect, recommendation, and auditee response.

Once the internal auditor is satisfied that the initial draft of the report is complete, a copy is sent to the Chancellor, for approval. After the Chancellor's review, a final copy is sent to the vice chancellor directly responsible for the area subject to the audit and the area manager. Subsequently, a closing conference is scheduled to discuss the findings.

Closing conference

Once the area vice chancellor and manager have reviewed the final report, the internal auditor will conduct a closing meeting to discuss the findings noted in the report. The internal auditor should take this opportunity to clear up any instances of misinterpretation or misunderstanding. After the closing conference, the internal auditor should consider including the auditee's comments as a component of the "Auditee Response" section in the Schedule of Findings and Recommendations of the final draft.

Tracking resolution of the findings

On an annual basis, the internal auditor follows-up with areas where audit reports were issued in the prior fiscal year to determine the current status of activities.

Reporting relationship of internal auditing

Internal audit reports administratively to the Chancellor and functionally to the Board of Trustees through the audit committee. This reporting relationship insures the independence of internal auditing. The director of internal audit meets on a bi-weekly basis with the Chancellor to keep him informed of all audit activities. However, the director of internal audit has an open line of communication with the Chancellor therefore the communication between the director of internal audit and the Chancellor is frequent and on-going. The audit committee of the board of trustees meets on a quarterly basis and the audit committee chairperson is in constant contact with the audit director regarding all issues pertaining to internal audit. (see attachment B)

Conclusion

The internal audit department at Winston-Salem State University recognizes the critical importance of the fiduciary roles and responsibilities university management has to its faculty, staff, students, constituents, and the taxpaying public of the State of North Carolina. Therefore, the Office of the Internal Auditor is committed to provide a quality service to the university community.

Attachment A

2004-2005

INTERNAL AUDIT

AND

ASSURANCE STRATEGY

Focus: To align internal audit's role, responsibilities and resources to strategically evaluate key control systems by determining organizational risks and priorities while assessing the quality of assurance within auditable university units.

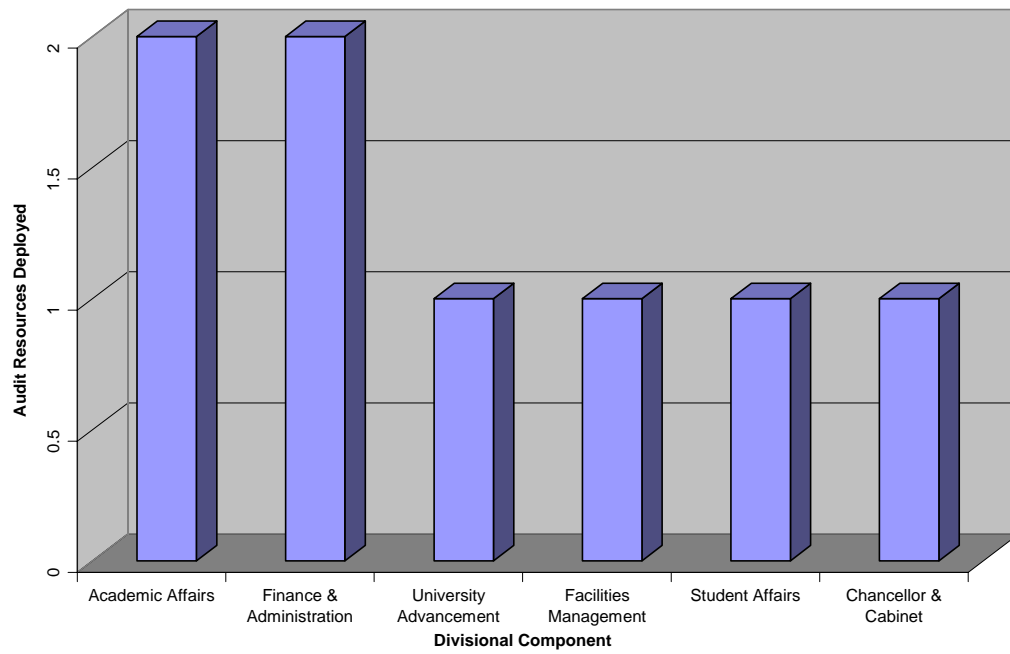
Divisional Components:

University unit	Key Control Systems	Assurance Responsibilities	Organizational risks and priorities	Internal audit role & responsibility
Academic Affairs	EPA Administration	To confirm the correct operation of the EPA administration function. To determine whether the goals and objectives of the university are being met.	Priorities: to get the most qualified individuals hired, efficiently, and insure their beginning date to work matches their inclusion into the payroll system. Risks: individuals are not hired in the proper manner and are not being added to the payroll in a timely manner.	1. Participate in the identification of cross business risks. 2. Identify the potential threats to the achievement of the organization's goals and objectives. 3. Articulating and communicating the objectives of the organization.
	Financial Aid	Improved understanding of the key risks and their wider implications.	Priorities: to establish an appropriate internal environment in response to the findings, resulting from the 2004 NASFAA external review.	1. Articulating and communicating the objectives of the organization. 2. Selecting and insuring the implementation of the responses to the risks noted in the NASFAA report. 3. Monitoring and coordinating the risk management processes and outcomes.

University unit	Key Control Systems	Assurance Responsibilities	Organizational risks and priorities	Internal audit role & responsibility
Finance & Administration	Payroll	To provide assurance that the payroll function is operating effectively.	Priorities: to insure the payroll is being processed according to Federal, State, and internal guidelines. Employees are being paid at the proper rate and in a timely manner. Risks: Violations of the guidelines occur. Overpayments, underpayments, non-payment. Payments being made in the wrong period.	1. Providing assurance on the effectiveness with which risks are managed. 2. Identifying potential threats due to violations of the guidelines. 3. Assessing the risk or impact of the threat occurring.
	Accounts Payable	To provide assurance regarding the propriety of the control environment.	Priorities: to insure payments are made in a timely manner, to the correct vendor, and in the proper period. Risks: Vendor confidence is reduced due to slow payments or failure to pay. Vendors are incorrectly paid.	1. Identifying the potential threats to the achievement of the priorities. 2. Assessing risk and the likelihood of the threats occurring.
University Advancement	Foundation Scholarships	To provide assurance surrounding scholarships issued from the university foundation.	Priorities: scholarships are awarded in the proper amount, to the correct student and in a timely manner. Risks: Awards not being made in a timely manner. Awards not being made in accordance with the grantors' guidelines and restrictions.	1. Identifying the potential threats to the achievement of the priorities. 2. Providing assurance on the effectiveness with which risks are managed.

University unit	Key Control Systems	Assurance Responsibilities	Organizational risks and priorities	Internal audit role & responsibility
Facilities Management	Capital Construction	To provide assurance surrounding the management of the capital construction costs and capital projects.	Priorities: Capital projects are completed in a timely manner. Capital projects are completed within the allocated budgets. Risks: Projects not being completed in a timely manner. Procedures and regulations governing capital construction are not being followed. Improper payments are made for capital project tasks.	1. Identifying the potential threats to the achievement of the priorities. 2. Assessing risk and the likelihood of the threats occurring.
Student Affairs	Homecoming petty cash account	To provide assurance over the petty cash funds allocated for homecoming expenses.	Priorities: Homecoming expenses are provided for and are done so in a timely manner. Risks: Failure to properly account for funds disbursed.	1. Identifying the potential threats to the achievement of the priorities. 2. Assessing the inherent risks associated with cash handling. 3. Assess the risk of a threat to the internal control over cash handling.
Chancellor & Cabinet	Special audit requests	To provide assurance that requests for reviews and consulting activities can be complied with in a timely manner.	Priorities: To achieve the goals and objectives of the university. Risks: Negative public exposure. Lack of public confidence in university management.	1. Identifying the potential threats to the achievement of the priorities. 2. Assessing risk and the likelihood of the threats occurring.

**2004-2005
Internal Audit & Assurance Strategy**



Attachment B

