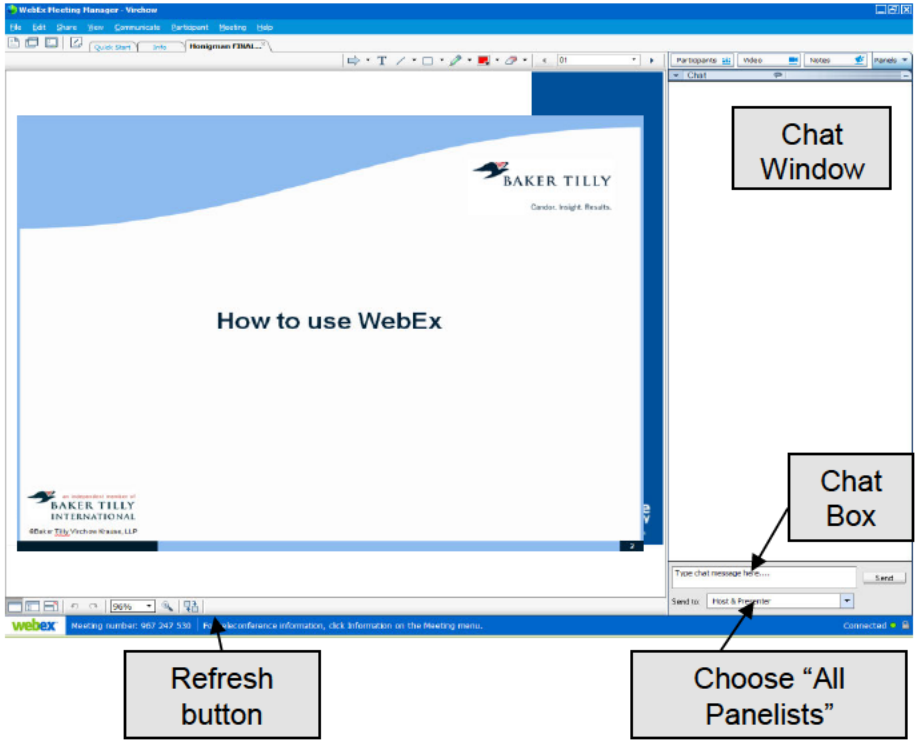
Webinar moderator

Nikki Pittman
Chief Audit Executive
University of Alaska

© Baker Tilly Virchow Krause, LLP

WebEx guide

- **Everyone is muted** to avoid background noise. Please use the chat box if you need to communicate with the host.
- **Audio issues:** If you are unable to hear the speaker, call in to the webinar using the WebEx dial-in information.
- **Asking questions:** In the chat screen, ask questions by choosing “All Panelists” in lower right chat window. Type your message in the chat box and hit “send.”
- **If disconnected:** Refer to your e-mail and reconnect. If audio is disconnected, click the Communicate tab in the upper left to find the dial-in numbers and access code or refer back to your e-mail for the dial-in number.
- **Support:** If you have technical problems, call WebEx Support at 866 229 3239.
- We will be recording today.



© Baker Tilly Virchow Krause, LLP

Transforming Internal Audit

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought.

© Baker Tilly Virchow Krause, LLP

Your presenters

Ashley Deihr
Senior Manager
Baker Tilly

- More than ten years of experience providing risk and internal audit consulting services to colleges and universities across the country
- Involved in reengineering internal controls and business processes in areas such as financial management and reporting, procurement, payroll, and research administration
- Presents to a variety of audiences, including ACUA and the National Council of University Research Administrators (NCURA)

John Curran
University Director of Internal Audit
University of Kansas

- Joined the University of Kansas (KU) in 2012
- Prior to KU, was a city auditor for Olathe, KS and held audit positions with Sprint Nextel and the Kansas Legislative Division of Post Audit
- Sits on the Board of Governors for the Kansas City Chapter of the Institute of Internal Auditors
- Revitalized the internal audit function at KU after a period of high turnover

© Baker Tilly Virchow Krause, LLP

Objectives

Understand:

- How to reposition the internal audit function to address operational, compliance, and other enterprise risks
- How to use data analytics and other new audit approaches to improve audit effectiveness
- How to leverage strategic partnerships and existing resources at your institution

© Baker Tilly Virchow Krause, LLP

Our story: The University of Kansas

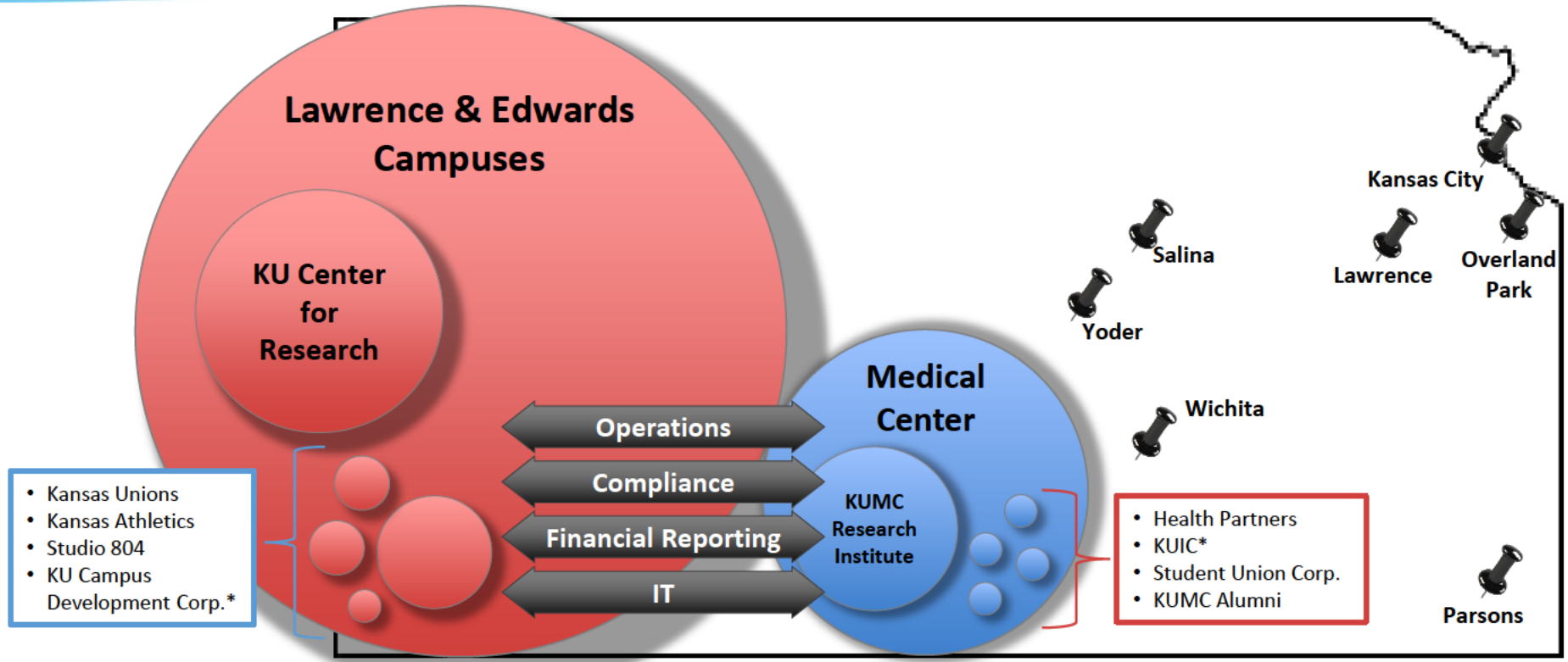
BAKER TILLY

KU
THE UNIVERSITY OF KANSAS

- Significant turnover in office prior to arrival in December 2012 (one full-time staff member and five vacant positions at time of hire)
- Opportunity to essentially start from scratch, but with some level of continuity by having an experienced audit manager

© Baker Tilly Virchow Krause, LLP

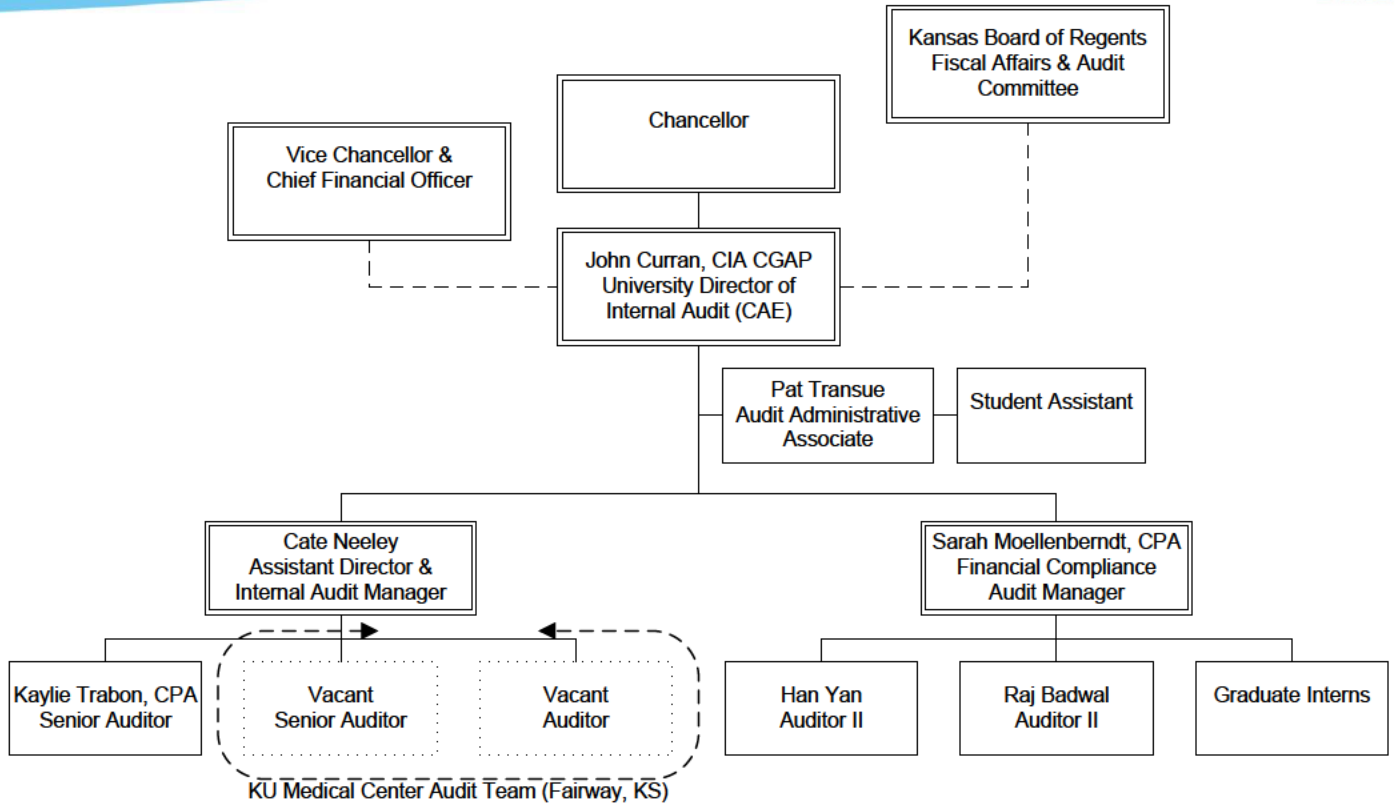
Our story: KU audit universe



Bubble size represents approximate amount of annual expenditures
*Affiliated corporation having University-wide mission

© Baker Tilly Virchow Krause, LLP

Our story: University of Kansas (KU) organizational chart

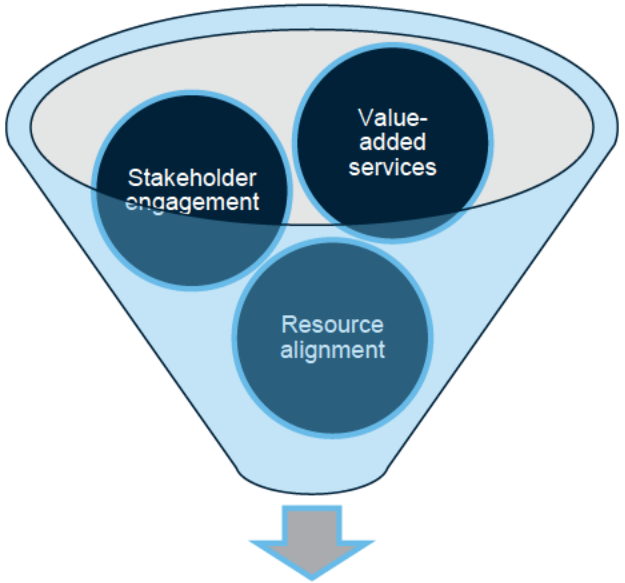


© Baker Tilly Virchow Krause, LLP

BAKER TILLY

Social capital is:

- An asset that must be managed appropriately to realize its value
- Derived from an accumulation of small actions
- *Not* about chumminess or "getting along" – rather, it makes disagreement and conflict easier and even more productive



Social capital

(resources such as information, influence, trust, cooperation, and goodwill)

© Baker Tilly Virchow Krause, LLP

Our story: Operationalizing the change model at KU

BAKER TILLY

Use **accumulated social capital** to achieve the office's mission and vision:

Internal audit vision statement

"Internal Audit will provide value-added audits and advisory services with objectivity, fairness, openness, and in accordance with the highest professional and ethical standards. **We will build leadership and expertise within our office to help drive positive change and promote integrity in our organization.** We will continually improve our operations and strive toward being a leader in the internal audit profession."

© Baker Tilly Virchow Krause, LLP

Key discussion themes

Reconceptualize	internal audit's purpose to address emerging risks and challenges
Reconnect	with stakeholders to build organizational relevance
Redefine	key processes to heighten effectiveness
Reallocate	financial and personnel resources to maximize audit coverage and efficiencies

© Baker Tilly Virchow Krause, LLP

BAKER TILLY

Reconceptualize internal audit's purpose to address emerging risks and challenges

- Building awareness that everything in our audit universe is auditable and that internal auditors are:
  - Process experts
  - Internal advisors on organizational effectiveness
  - Umpires who get to call balls and strikes within the organization
- Using risk assessment approaches to understand organizational culture (i.e., what the organization does and does not do well)
- Establishing coordination between enterprise risk management (ERM), compliance, and internal audit

© Baker Tilly Virchow Krause, LLP

Reconceptualize internal audit: Internal audit's role

BAKER TILLY

Historical

- Focus of internal audit is to preserve current state
- Audits are based on a fixed rotation and focus is to cover the entire population
- Sample selection is random and small
- Audits are performed end-to-end of a specific process or department
- Limited data mining or analytics

Current

- Focus of internal audit is to create value
- Increased pressure to streamline audits to cover high-risk areas based on indicators
- Sample selection for control and transaction testing is based on risk areas
- Emphasis on fraud detection and ensuring process/regulatory compliance
- Gathering data is an efficient way to perform analysis on a large population

© Baker Tilly Virchow Krause, LLP

Reconceptualize internal audit: Risk assessment approach

BAKER TILLY

KU's maturing approach

Qualitative, backward looking → ***Quantitative, forward looking***

2012

- Contracted with external consulting firm
- Relied on a combination of surveys and interviews of 100 senior and mid-level administrators ("what keeps you up at night?")
- Served as risk assessment for new ERM program

2013

- Interviewed 70 administrators on potential areas of risk
- Considered common issues/ themes from previous internal audit work
- Incorporated areas of risk identified as part of the ERM program

2014

- Interviewed 20 senior administrators; more targeted than in prior years
- Held a forced rating exercise with compliance offices to identify compliance-related topics
- Greater reliance on previous audit work

2015

- On-going engagement of key stakeholders and senior leadership
- Incorporating data collection efforts from second lines of defense (e.g., compliance, IT security)
- Greater reliance on issues and potential risk areas identified through previous audits and other data analytical work

© Baker Tilly Virchow Krause, LLP

Reconceptualize internal audit: Connecting audit, risk, and compliance

BAKER TILLY

- Both **internal audit and compliance departments** may be responsible for risk management, assessment, and communication activities. Although the objectives of the risk assessments may differ slightly (e.g., internal audit includes risks across the university and compliance focuses primarily on regulatory and compliance risk), there is some potential overlap in activities. **Collaboration and coordination can improve the risk assessment results and create efficiencies for the university**.
- Internal audit can facilitate cross-campus collaboration among institutional compliance and risk management programs (e.g., by holding **quarterly meetings of internal audit, compliance, and risk management** functions).
- The Director of Internal Audit can sit on the Executive Compliance Committee to stay informed of issues across the university, which may impact audit planning. Additionally, internal audit should **regularly meet with senior leadership**, including the President, Provost, Compliance Director, and General Counsel to maintain relationships and stay knowledgeable.
- Compliance and internal audit may have a strong connection point through their reporting relationship to the board and audit committee. This **connection point can provide transparency** in their reporting to provide the most cohesive and coordinated information flow to management and the board.

© Baker Tilly Virchow Krause, LLP

BAKER TILLY

Reconnect with stakeholders to build organizational relevance

- Demonstrating value through leadership
  - Be flexible and change services to align with leadership goals
  - Add value through non-audit services
  - Ask, “Do we run our audit shop in the same fashion as we expect others to operate their departments and programs?”
- Stakeholder communication strategies
  - Identify your key stakeholders
  - Assign staff to engage

© Baker Tilly Virchow Krause, LLP

Reconnect with stakeholders:
Staff swimlanes for stakeholder engagement

BAKER TILLY

Director	Senior Leadership
Assistant Director & Internal Audit Manager	Medical Center Campus & Compliance
Financial Compliance Audit Manager	Financial Reporting/Management & Affiliated Corps.
Senior Auditor	Operations & Academics

© Baker Tilly Virchow Krause, LLP

Reconnect with stakeholders: Adding value through engagements

BAKER TILLY

- **Risk Management** – Assisting with identification and management of risks across the college or university, management of the external auditor, alignment of risk appetite and strategy, risk response improvement, minimization of losses, opportunity management, and deployment of capital optimization
- **Operational Assessments** – Reviewing organizational operations, evaluating efficiencies, and identifying opportunities regarding organizational structure and practices (e.g., transition management reviews to help facilitate change management)
- **Cybersecurity Reviews** – Assessing effectiveness of information security and privacy activities, including policies, procedures, processes, controls, training, and compliance with contractual or regulatory requirements
- **Investigations** – Conducting fraud and other types of investigations/audits (e.g., audits of laboratory safety, export controls compliance, and salary cost transfers)
- **Compliance Program Reviews** – Developing communication and training strategies regarding regulatory compliance requirements, defining roles and responsibilities for compliance oversight, and implementing policies and procedures

© Baker Tilly Virchow Krause, LLP

BAKER TILLY

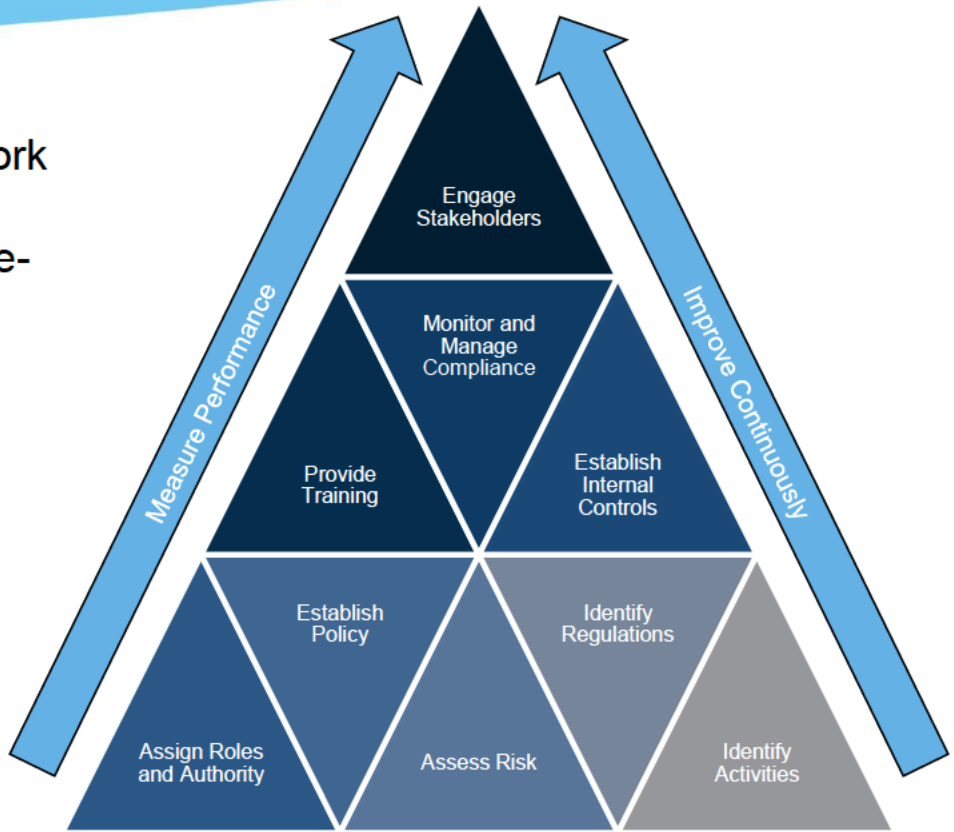
Redefine key audit processes to heighten effectiveness

- Focusing on horizontal over vertical audits
- Considering effectiveness and efficiency when developing audit criteria
- Developing findings and getting to the root cause
- Getting results from the audit work
- Preparing for the quality assessment review

© Baker Tilly Virchow Krause, LLP

Redefine key audit processes: Developing audit criteria

Application of the Compliance Framework in developing audit criteria for compliance-related programs



© Baker Tilly Virchow Krause, LLP

Redefine key audit processes: Leveraging data analytics

BAKER TILLY

- Technology-driven initiatives and automated systems have **increased the amount of data available** to management
- **Data analytics** is a process to obtain insights from electronic data internal or external to the organization
- Objectives of data analytics can be **risk-focused** (e.g., fraud, policy/regulatory non-compliance) **or process-focused** (e.g., decreased costs, increased efficiency)
- Analytics can be used during specific audits to **identify inconsistencies and high-risk areas**, as well as to help the organization **identify trends** or focus areas for the internal audit plan

© Baker Tilly Virchow Krause, LLP

Redefine key audit processes: Fraud analytics examples

BAKER TILLY

Payroll

Take payroll data over the past year and perform tests to identify:

- Duplicate payments (e.g., individual receives two payments in one month)
- Inaccurate payroll amounts (e.g., an individual is receiving a payment that is not appropriate for his/her job)
- Employees that should not be on payroll (e.g., employee receiving payments past their terminated date, ghost employee)

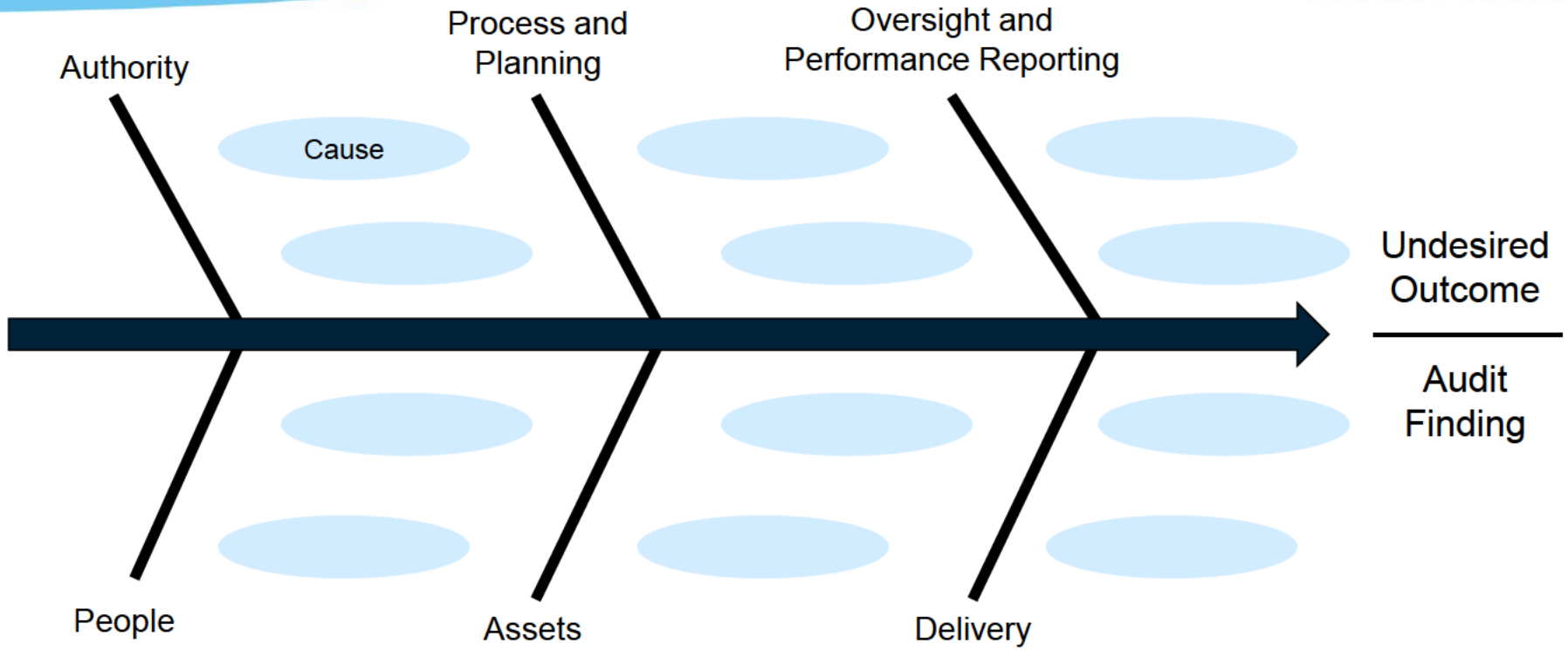
Accounts Payable

Obtain information of invoices paid in the past year to identify trends related to:

- Highest-paid vendors
- Invoices paid with even dollar amounts
- Invoices paid during times other than the normal work day (e.g., nights and weekends)
- Vendors only used by one office/ individual
- Potential conflicts of interest between employees and vendors

© Baker Tilly Virchow Krause, LLP

Redefine key audit processes:
Developing findings and getting to root cause



© Baker Tilly Virchow Krause, LLP

Redefine key audit processes: Getting results from the audit work

BAKER TILLY

- Quality recommendations
  - Action-oriented (i.e., properly directed, hard-hitting, specific in what needs to be fixed and the intended outcomes, convincing, significant, and positive in tone and content)
  - Deals with underlying causes
  - Feasible
  - Cost-effective
  - Considers alternatives
- Commitment (staff and organizational)
- Aggressive monitoring and follow-up
- Special attention to key recommendations (early and continuous emphasis)

"How to Get Action on Audit Recommendations", US Government Accountability Office (GAO), July 1991

© Baker Tilly Virchow Krause, LLP

Redefine key audit processes: The quality assessment review (QAR)

- Answers the question "**who audits the auditor**?"; leading by example
- **Provides assurance** to the board and leadership that the audit function is competent, independent, and meeting expectations
- Newly released Institute of Internal Auditors (IIA) guidance (Practice Advisories, 1300s)
  - Quality assurance and improvement programs
  - Internal and external assessments (with independent external validation)
  - Reporting results
  - Audit committee approval
- Potential opportunities identified during a QAR:
  - Internal audit plan
  - Information technology audit coverage
  - Organizational alignment
  - Staff development
  - Benchmarking

© Baker Tilly Virchow Krause, LLP

BAKER TILLY

Reallocate resources to maximize audit coverage and efficiencies

- Organizational alignment
- Staff recruitment and selection (leverage professional networks)
- Training strategies:
  - In-house training development
  - Relied upon external training sources: IIA, National Association of College and University Business Officers (NACUBO), ACUA, and the Intergovernmental Audit Forum
- Data analytics
- Strategic partnerships and co-sourcing
- Involvement with and support of external financial audit work

© Baker Tilly Virchow Krause, LLP

KU's current state

Completed priorities

- Recruit talented staff
- Get value-added audits out the door
- Build and nurture necessary relationships
- Secure resources to accomplish mission

Next steps

- Mature internal audit process
- Extend audit coverage to address key risk areas

Lessons learned

- Place staff in position to be successful
- Value and protect your independence
- Don't lose sight of the long-term vision

© Baker Tilly Virchow Krause, LLP

Presenter contact information

Thank you for participating today! Remember CPE certificates will be emailed to you by ACUA Headquarters in approximately three weeks.

John Curran

University Director of Internal Audit

University of Kansas

jacurran@ku.edu

Ashley Deihr

Senior Manager

Baker Tilly

ashley.deihr@bakertilly.com

© Baker Tilly Virchow Krause, LLP

Upcoming events

- **June *(date to be determined)*** – Baker Tilly will continue our ACUA webinar series
- **July 27th** – Raven Catlin will present on “Root Cause Analysis”
- **August 24th** – Pat Hawk and Rosemary Madnick will present on “Uniform Guidance and COSO”

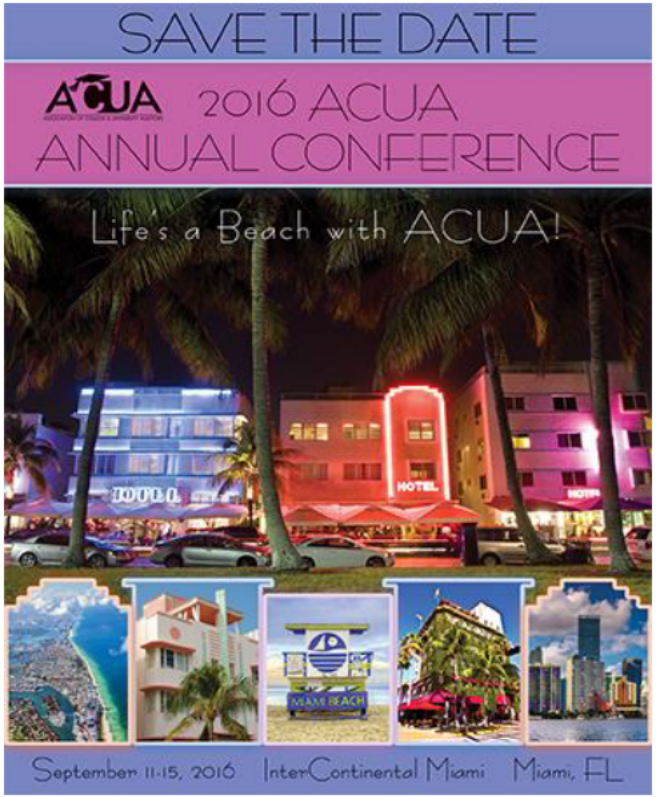
© Baker Tilly Virchow Krause, LLP

ACUA Annual Conference

Check the ACUA website to register for the 2016 Annual Conference!

http://www.acua.org/CPE_Events/Annual_Conference.asp

- September 11 – September 15, 2016
- InterContinental Miami
- Miami Beach, FL



© Baker Tilly Virchow Krause, LLP

BAKER TILLY

Please stay online for a demonstration of

internal audit awareness tools and templates

by La Donna Flynn and Pam Doran from the ACUA Internal Audit Awareness Committee

© Baker Tilly Virchow Krause, LLP

Internal audit awareness tools and templates demonstration

BAKER TILLY

Check the ACUA website for a one stop shop for tips and tools during Internal Audit Awareness Month - May!

http://www.acua.org/ACUA_Resources/InternalAuditAwareness.asp

Available resources:

- FAQs, Tips, and Ideas for IA Awareness
- IA Overview Samples
- IA Awareness Brochure

© Baker Tilly Virchow Krause, LLP