

Beyond "Gotcha:" The Role of Internal Audit in Today's University

Who doesn't have a horror story about interacting with auditors? Tales abound of auditors who showed up unannounced and demand to have hundreds of pages of documentation photocopied, questioned legitimate expenses due to lack of knowledge, or re-filed the department's documentation in the wrong order. Internal auditors are sometimes perceived as the "bad guys" or "watchdogs," leading many university personnel to be uncomfortable with or wary of working with internal audit.

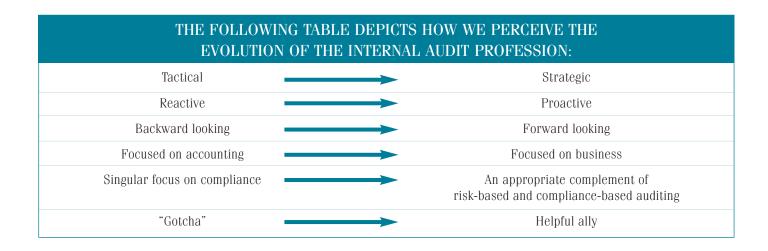
But there is good news! A paradigm shift has been occurring over the past few years in how internal audit professionals operate. In fact, if you play your cards right, modern internal audit departments can be pleasant to work with, and even helpful. If you haven't already, sometime in your career you will almost certainly interact with internal auditors, so why not make the best of it?

This article is the first in a three-part series that examines best practices in working with internal audit, including hints for making the experience go more smoothly (and hopefully, for staying out of trouble!). This first article provides background on the profession, contrasts the goals of traditional and more modern internal audit functions, and reviews types of internal audit projects and how these projects can actually be helpful. In the second article, we will describe the nuts and bolts of the internal audit process and provide terminology for "talking the talk" when interacting with internal auditors. The third article will provide specific ideas for leveraging internal audit to help your department, whether your institution's internal audit model is traditional or more modern. Look for the second and third articles in upcoming issues of *NCURA Magazine*.

Traditional versus Modern Approaches to Internal Audit

In recent years, "modern" internal auditors have expanded their focus beyond just having "findings" in the form of inappropriate expenses or inaccurately recorded costs to proactively assisting organizations with enhancing internal controls, increasing efficiencies, and optimizing processes. These internal auditors collaborate with auditees to understand how things happen today, what could go wrong, and what needs to change to strengthen internal controls, keeping in mind the goals of the department and the need to be as efficient as possible with limited resources. These auditors will summarize "observations" regarding risks to the auditees, make "recommendations" for enhanced internal controls or efficiency measures that could mitigate the risks, and assist departments in making necessary changes. "Modern" internal audit departments are designed to help, and we aim to give you the tools you need to leverage their skills to the benefit of your department and institution.

With all of this said, we understand that "modern" might not exactly describe the internal auditors you have encountered, and, in comparison, your internal auditors may seem stuck in the Stone Age. But hope is not lost! These articles will give you tips to deal with other types of auditors, too. You may even get some ideas to help your internal audit function come into the new era of auditing!



Internal Audit Engagements

It is important to remember that internal auditors do more than just financial audits (although this is still an important part of their job in order to protect the assets of your organization). Internal auditors perform several other types of engagements, as well. It is sometimes possible for a department to request an audit. Understanding the various types of audit activities may help you to get the most out of the experience:

- Compliance Audits: Reviewing a department or process to assess compliance with relevant internal policies and procedures, as well as external regulations. For example, internal auditors might review the institution's cost-sharing policy for compliance with Office of Management and Budget Circular A-21 and National Institutes of Health and other sponsor requirements.
- Operational Audits: Reviewing a department or process to identify ways to make it work better or to use fewer resources.
 For example, internal auditors might review the operations of the procurement department to validate that the best choices are being made to save the university money, while still making purchases in a timely manner.
- Risk Assessments: Looking at everything that could go wrong in an institution (including the possibility of missed opportunities), and determining what the biggest risks are. Internal audit generally performs an entity-wide risk assessment on an annual basis to provide the foundation for its annual audit plan; however, it may also perform a risk assessment for a school or department. For example, prior to performing a financial audit at the medical school, internal auditors might perform a risk assessment in order to determine what departments are more likely to have something go wrong, and then focus audit efforts on those departments.
- Fraud Investigations: Examining allegations of fraud and performing a variety of audit procedures, including detailed testing, interviews, and analytical assessments, to determine whether fraud has occurred, how it occurred, and what amount of money and other assets were involved. For example, internal auditors at many institutions are responsible for investigating allegations made via the university's anonymous hotline.

Positive Impacts of Internal Audit Engagements

Each of these types of engagements can have positive impacts, both for the university as a whole and for the department being reviewed. At an institution-wide level, internal audit can provide a comprehensive and concise view of risk throughout the organization, help management and administrators to balance competing priorities with limited resources, and provide practical advice for streamlining processes and strengthening internal controls.

At a departmental level, your internal auditors can also provide valuable assistance by:

- Helping to identify fraud, waste, or abuse in your group that could be jeopardizing your mission or wasting resources. If one of your researchers were stealing valuable equipment, you'd want to know, right?
- Reviewing your processes and internal controls, and sharing relevant recommendations to improve efficiency and compliance in your department. You may be pleasantly surprised to find that, rather than adding additional bureaucratic levels, an audit could actually include recommending the removal of unnecessary controls!
- Having a strong voice that gets management's attention, support, and funding for changes such as additional resources, enhanced processes or better systems via internal audit's usually direct reporting relationship to senior management and the audit committee of the board of trustees. For example, your internal auditors might recommend that your department cannot function effectively without an additional administrative FTE. Wouldn't it be nice to get some additional help?

We hope that you will start to put some of this knowledge into practice – not only to survive the audit process but also to add value to your organization.

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