



VANDERBILT  UNIVERSITY

Independent Validation Report of the
Quality Assurance Self-Assessment Review of

Northern Arizona University Internal Audit

September 23, 2020

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Mr. Mark Ruppert, Chief Audit Executive
Northern Arizona University

In April 2020, the Northern Arizona University (NAU) internal audit (IA) function completed a self-assessment of internal audit activities in accordance with guidelines published by the Institute of Internal Auditors (IIA) for the performance of a quality assurance review (QAR). NAU engaged an independent review team consisting of internal audit professionals with extensive higher education experience to perform an independent validation of the self-assessment. The primary objective of the validation was to verify the assertions made in the QAR report concerning IA's conformity to the IIA's *International Standards for the Professional Practice of Internal Auditing* (the IIA *Standards*) and Code of Ethics. Compliance with IIA *Standards* require an internal audit activity obtain a QAR at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

In acting as validators, we are fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period of August – September, 2020, consisted primarily of interviews with the President and senior leadership, the Chief Audit Executive and IA staff, the Chief Audit Executive for the Arizona Board of Regents, and a review and test of the procedures and results of the self-assessment.

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," or "does not conform." "Generally conforms" is the top rating and means an internal audit activity has a charter, policies, and processes judged to be in conformance with the IIA *Standards*. "Partially conforms" means deficiencies in practice are noted that are judged to deviate from the IIA *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Based on our independent validation of the QAR performed by NAU IA, we agree with their overall conclusion in the attached self-assessment report that the internal audit function "**Generally Conforms**" with the IIA's *Standards*, and we believe they also conform to the IIA's Code of Ethics. Our review noted strengths as well as opportunities for enhancing the internal audit function.

We thank you, your staff, and the executives with whom we interfaced for the cooperation and time extended to us during this review.



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Conclusions of the Independent Review Team

Based on our independent validation of the quality assurance review self-assessment performed by Internal Audit, it is our overall opinion that the internal audit function "**Generally Conforms**" with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics.

The following pages detail our observations resulting from the review, including strengths as well as opportunities for enhancing the internal audit function based on best practices.

Observations

Strengths

- ★ Collaborative and innovative approach to audits
- ★ Seen as a partner to management
- ★ Well-respected, valued, service-oriented, and trusted advisor
- ★ Helped implement Enterprise Risk Management (ERM) and use it as part of the annual risk assessment process for audit planning and educating senior leadership on risks
- ★ Uses Microsoft Teams, SharePoint/PEAKS for audit working papers and audit information
- ★ Ensures university risks are addressed despite limited resources
- ★ Meets with senior leadership team to discuss audit plans and results
- ★ CAE has brought a change in the culture and process improvements to the audit function, including improved follow-up, reporting, and forward-thinking approach to audits and risks

Observations

Opportunities for Enhancement

Enhance Independence

IIA Standard 1100, Independence and Objectivity: *The internal audit activity must be independent, and internal auditors must be objective in performing their work.*

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. The IIA Standards provide examples of functionally reporting that include approval of the appointment, removal, and renumeration of the Chief Audit Executive. To ensure full independence, NAU should:

1. Assure That the Internal Audit and Audit Committee Charters Align

- The Audit Committee charter should include responsibilities that demonstrate the independence of CAE position, including participation in the evaluation of CAE performance and approval of CAE compensation.
- The Audit Committee should formally approve (not just review) the appointment and termination of CAE

2. Clarify the Reporting Relationship to the President

- Currently, the [campus organization chart](#) shows that the CAE reports to the Vice President for Finance, Institutional Planning and Analysis and CFO with no lines to the President. While this was communicated verbally as an administrative reporting relationship, the campus should be made aware of the functional reporting relationship between the president, the Arizona Board of Regents, and the audit functions on the university organization chart.
- While the CAE can meet with the president as needed, there are no periodic meetings scheduled. Having periodic meetings scheduled during the year can help strengthen the independence of the audit function and is considered a best practice.
- The audit function's budget is part of the CFO's budget. Consider having the president review the annual budget and resources of the department.

3. Include the CAE in Cabinet Meetings

- The CAE makes presentations to the senior leadership team regarding the audit plan and audit reports, and the senior leadership team support, appreciate, and rely upon the strength of the audit function. Consider adding the CAE in an official cabinet role to enhance this strength and support the audit function's continued participation in learning the strategies of the university.

Observations

Opportunities for Enhancement

Enhance Training and Resources

Standard 1200, Proficiency and Due Professional Care: *Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.*

Standard 2030, Resource Management: *The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.*

Obtaining appropriate education, experience, certifications, and training help internal auditors develop the level of skill and expertise required to perform their duties. Resource limitations affect the priorities in the internal audit plan and should be communicated to the Audit Committee.

4. Ensure Auditors Have Adequate Resources

- Professional certifications of staff, and the demands of the profession, require staff receive quality and up-to-date training on a variety of topics. Training resources should be provided to support a minimum of 40 hours per year. Historic as well as current budget constraints have prevented adequate and relevant training for the staff and precluded travel to national conferences in both auditing and higher education auditing. Providing quality education can help improve the value, effectiveness, and efficiency of audits.
- Consider benchmarking with audit departments in other universities with a size and mission similar to that of NAU to determine and analyze staff size and budget information and present the results to the president for review.
- Consider developing a competency framework and related performance metrics and communicating the results to the Audit Committee on an annual basis.

Objectives, Scope, & Methodology

Objectives

As outlined in the agreement with NAU, the primary objective of this review was to conduct a validation of the University Internal Audit's (IA) self-assessment following guidelines contained in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics and provide best practice identification and recommendations for the University IA's support of the IIA International Professional Practices Framework.

Scope

The scope and approach for the independent validation included:

- Interviewing stakeholders of the IA function as agreed upon by the review team and the NAU Chief Audit Executive (CAE), including the President and other members of the senior leadership team, the Arizona Board of Regents CAE, the NAU CAE, and IA staff members.
- Appraising the efficiency and effectiveness of the University IA's activity by reviewing and evaluating the internal audit self-assessment report and supporting documentation, including working papers from IA projects, considering the expectations of the University's management, audit committee, mission, and values; compliance with its audit charter; and compliance with the *IIA Quality Assessment Manual 2017 IPPF Aligned Edition*.
- Identifying strengths as well as opportunities to enhance the internal audit function.

Methodology

We used the *IIA Quality Assessment Manual 2017 IPPF Aligned Edition* which is the same criteria applied by NAU IA in completing its self-assessment.



INTERNAL AUDIT

Quality Assurance Self-Assessment
Report
April 10, 2020

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- NAU IA Overall Rating
- NAU IA Identified Improvement Opportunities
- NAU IA Identified Best Practices

Self-Assessment Results

NAU Overall Standards Compliance Rating

NAU Internal Audit Generally Complies with the IIA's International Standards for the Professional Practice of Internal Auditing

	GC	PC	DNC
OVERALL EVALUATION			
ATTRIBUTE STANDARDS			
PERFORMANCE STANDARDS			

GC = Generally Complies; PC = Partially Complies; DNC = Does Not Comply



Mandatory Guidance:

- Core Principles
- 2017 Standards
- Code of Ethics
- Definition of Internal Auditing



QUALITY ASSURANCE IIA Professional Standards

Standard 1300	<i>Quality Assurance and Improvement</i>
Standard 1310	<i>Quality Program Assessments</i>
Standard 1311	<i>Internal Assessments</i>
Standard 1312	<i>External Assessments</i>
Standard 1320	<i>Reporting on the Quality Assurance & Improvement Program</i>
Standard 1321	<i>Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”</i>
Standard 1322	<i>Disclosure of Nonconformance</i>



Quality Assurance & Improvement Program (QAIP)

Ongoing and periodic internal assessments that cover all aspects of the internal audit activity to ensure:

- *Conformance with the Standards*
- *Individual internal auditor application of the Code of Ethics*
- *Internal Audit efficiency and effectiveness*
- *Compliance gaps are addressed*
- *Identified process improvements implemented*

External Assessments

Required at least every five years to:

- Evaluate ongoing compliance with the Standards
- State in internal audit reports that work was completed in conformance with the Standards

All assessments must be completed by independent, qualified assessors from outside the assessed organization

Assessments focus: Mandatory Guidance & best practices

One of two types of assessment can be applied:

- Full External Assessment
- Self-Assessment with Independent Validation



External Assessments

Full External Assessment:

- Process includes off-site planning, on-site interviews and work product review, evaluation and reporting
- Likely cost range for NAU-sized IA function: \$15k to \$40k

Self-Assessment with Independent Validation:

- Complete / document per the IIA Quality Assessment Manual
- Report self-assessment results to NAU Executives & ABOR AC
- Validate by independent, qualified assessors
- Pay less: No fees; assessor expenses only ~\$5,000

IA Self-Assessment Approach

Self-Assessment:

- Applied IIA Quality Assurance Manual, including completion of IIA:
 - Questionnaires / checklists addressing overall internal audit function background, governance, management, staffing, and processes
 - Internal Audit client surveys: selected clients based on Internal Audit report distributions back to January 1, 2018. Received 50 responses or 66% of 76 surveys issued.
- Review and Evaluation of Audit Project Documentation Approach
- Self-Assessment Report Presentation to IARB and ABOR Audit Committee

Independent Validation of Self-Assessment:

- QAR Team originally planned to be on site April 20 – 24, 2020
- Independent Validation Report originally planned: IARB & ABOR in May 2020
- Independent Validation Now Pending

Self-Assessment Results

IIA Quality Assurance – Standards Compliance Ratings

The IIA Quality Assessment Manual suggests a scale of three ratings:

- **Generally Conforms (GC)** – top rating indicating that internal audit has a charter, policies, and processes that are judged to be in conformance with the *Standards*.
- **Partially Conforms (PC)** – indicating deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude internal audit from performing its responsibilities in an acceptable manner.
- **Does Not Conform (DNC)** – indicating deficiencies in practice are judged to be so significant as to seriously impair or preclude internal audit from performing adequately in all or in significant areas of its responsibilities.

Self-Assessment Results

NAU Overall Standards Compliance Rating

NAU Internal Audit Generally Complies with the IIA's International Standards for the Professional Practice of Internal Auditing

GC

PC

DNC

OVERALL EVALUATION



ATTRIBUTE STANDARDS



PERFORMANCE STANDARDS



GC = Generally Complies; PC = Partially Complies; DNC = Does Not Comply

Self-Assessment Results

NAU Attribute Standards Ratings

Attribute Standards (1000 - 1210)		GC	PC	DNC	Attribute Standards (1220 - 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	√			1220	Due Professional Care	√		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	√			1230	Continuing Professional Development	√		
1100	Independence and Objectivity	√			1300	Quality Assurance and Improvement Program		√	
1110	Organizational Independence	√			1310	Requirements of the Quality Assurance and Improvement Program	√		
1111	Direct Interaction with the Board	√			1311	Internal Assessments		√	
1112	Chief Audit Executive Roles Beyond Internal Auditing	√			1312	External Assessments	√		
1120	Individual Objectivity	√			1320	Reporting on the Quality Assurance and Improvement Program		√	
1130	Impairment to Independence or Objectivity	√			1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"	√		
1200	Proficiency and Due Professional Care	√			1322	Disclosure of Nonconformance		√	
1210	Proficiency	√							

Self-Assessment Results

NAU Performance Standards Ratings

Performance Standards (2000 - 2130)		GC	PC	DNC	Performance Standards (2200 through 2400)		GC	PC	DNC	Performance Standards (2410 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	√			2200	Engagement Planning	√			2410	Criteria for Communicating	√		
2010	Planning	√			2201	Planning Considerations	√			2420	Quality of Communications	√		
2020	Communication and Approval	√			2210	Engagement Objectives	√			2421	Errors and Omissions		√	
2030	Resource Management	√			2220	Engagement Scope	√			2430	Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”	√		
2040	Policies and Procedures	√			2230	Engagement Resource Allocation	√							
2050	Coordination and Reliance	√			2240	Engagement Work Program	√			2431	Engagement Disclosure of Nonconformance		√	
2060	Reporting to Senior Management and the Board	√			2300	Performing the Engagement	√			2440	Disseminating Results	√		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	√			2310	Identifying Information	√			2450	Overall Opinions	√		
					2320	Analysis and Evaluation	√			2500	Monitoring Progress	√		
2100	Nature of Work	√			2330	Documenting Information		√		2600	Communicating the Acceptance of Risks	√		
2110	Governance	√			2340	Engagement Supervision	√							
2120	Risk Management	√			2400	Communicating Results	√							
2130	Control	√												

Self-Assessment Results

Improvement Opportunities

IMPROVEMENT OPPORTUNITY	NAU IA Solution	IMP DATE
1. Internal Audit's Quality Assurance and Improvement Program (QAIP) should be fully implemented to include documented periodic compliance assessments and reporting of same to NAU leadership and the ABOR Audit Committee.	We will continue to mature our related procedures to ensure full implementation of a QAIP.	12/31/20
2. Internal Audit should develop and implement a records retention policy.	We will implement a procedure.	9/30/20
3. Internal Audit should enhance its existing formal policies and procedures:		
a) Develop a procedure for addressing and reporting on possible future situations where conformance with the Standards is not possible.	We will implement a procedure.	9/30/20
b) The nature of consulting could be better defined in the IA Charter. Update procedures to address and ensure consistency in the documentation of consulting projects as is applied for audit projects.	We will pursue IA Charter update and will update applicable procedures.	12/31/20
c) Update audit plan procedures to ensure governance related audits are included in the audit universe and considered in each annual or periodic audit plan.	We will update procedures.	6/30/20
d) Develop a procedure that addresses appropriate IA team member involvement in operational activities like committees, work groups, etc.	We will implement a procedure.	6/30/20
e) Update procedures to reflect the maturation of the Objective, Risk and Control Assessment planning process applied to audits.	We will update procedures.	12/31/20
f) Update reporting procedure to identify the handling of errors and omissions.	We will update procedures.	6/30/20

Self-Assessment Results

Existing Best Practices

BEST PRACTICE	Related Standard(s)
<p>The audit plan is developed based on the organization’s Enterprise Risk Management process and results, ensuring audit plan alignment with organizational strategy and related risk.</p>	<p>2120 Risk Management</p>
<p>The Objective, Risk and Control Assessment process supports application of the COSO Internal Control Framework; assures IA and Client agreement on key risks to be addressed; provides an effective linkage and overview of an audit’s plans, fieldwork and results; and, provides for direct linkage of controls assessed to those required in the ABOR internal audit report template.</p>	<p>2010 Planning 2200 Engagement Planning 2330 Documenting Information</p>
<p>Team audits support the positive application of proficiency and due professional care by combining team knowledge and expertise, while also resulting in improved audit efficiency and turn around time.</p>	<p>1200 Proficiency & Due Professional Care 2300 Performing the Engagement</p>
<p>The use of SharePoint and MS Teams for knowledge sharing provides for a centralized repository of Team knowledge, on-line P&P management, reporting management, centralized management of critical departmental tasks, centralized tracking of organizational knowledge like IT systems and external audit reports, and effective organization of audit correspondence.</p>	<p>1200 Proficiency & Due Professional Care 2030 Resource Mgmt 2040 P&Ps 2300 Perform Engagemnt</p>
<p>Efficient audit reporting communications that minimize the amount of reading time required of NAU executives.</p>	<p>2060 Reporting to Sr Mgmt & the Board 2400 Commun Results</p>

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