

Internal Audit Protocols



SOUTH TEXAS
COLLEGE

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PURPOSE

The purpose of this document is to serve as an information resource to be used by management and the Office Internal Auditors. It sets out to establish a shared understanding of the overall audit process that will be utilized to conduct internal audit engagements at South Texas College and is intended to serve as a general reference for management and auditors alike to improve communication and enhance the efficiency and effectiveness of the Internal Audit process.

This protocol will be reviewed annually by the Office of Internal Audits and management to ensure that it continues to meet the requirements of the College.

DEFINITIONS

Internal Audit – is an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Auditee – department, program, or process under audit.

Internal Auditor – personnel comprised from the Internal Audit department who conducts the audit.

Management – the operational and senior management of a department, program, or process under audit.

INTERNAL AUDIT & MANAGEMENT

Internal audits will be conducted in a constructive manner. As needed, the assistance of management will be solicited in the planning and performance of the audit. A spirit of collaborative teamwork between the internal auditor, auditee, and personnel under audit will be followed. This rapport shall not alter the fact that the internal auditor has full, free, and unrestricted access to all records, personnel, properties, and any other sources of information needed in the performance of an audit. When necessary, special arrangements will be made for the examination of confidential or classified information.

INTERNAL AUDIT PROCESS – PLANNING PHASE

PLANNING - AUDIT NOTIFICATION

With few exceptions, the auditee, area supervisor, vice president, and president will be notified when an area has been selected for audit. Notification e-mails typically include an attached *Entrance Conference Memo* which is a document that represents the official start of the audit engagement and invites management to attend the entrance conference to discuss the audit's timing, scope, and objective(s). In some instances (e.g. fraud investigations, or surprise cash counts, etc.) no advance notification will be given. Additionally, designed fieldwork procedures may also require the auditors to conduct unannounced inspections of documentation. In the event that the internal auditors are required to conduct an unannounced inspection of records, they will request that the area's supervisor be notified so as to ensure that management is aware of the audit activities taking place in their department.

PLANNING - ENTRANCE CONFERENCE

At the entrance conference the internal auditors will go over the following:

- The audit process map (e.g. planning phase, fieldwork phase, audit reporting, and follow-up procedures);
- Address management's questions/concerns related to the audit;
- The anticipated timeframe for completing each audit milestone;

At the entrance conference the auditors will discuss the anticipated (e.g. estimate) timeframe for completing the engagement as well as the anticipated timeframe for completing the different phases of the audit. The exact time period that an audit engagement requires will vary depending on a myriad of factors, such as:

- The complexity of the process under review;
- The size of the data sets under examination;
- The expertise of the staff and their availability (e.g. summer/winter break, vacation, FMLA);
- Time taken to satisfy auditor's requests for information (unnecessary delays);
- Time taken by management to provide their responses to reported findings;
- Other conflicting work priorities of the Office of Internal Audits and the business area

The entrance conference will include the auditee and key staff, area supervisor, internal auditor(s), and vice president. The purpose of the entrance conference is to accomplish the following:

- Establish a point-of-contact – The role of the point-of-contact will be to provide documentation, records, and other resources requested by the internal auditors
- Enable the internal auditors to meet the department’s staff;
- Objective – Discuss the purpose of the audit or what the audit is trying to accomplish (e.g. ensure that the area’s internal controls are working effectively);
- Discuss scope of the audit – Includes both the time period under review as well as various segments that will be included in the audit (e.g. safeguarding of assets, separation of duties, monitoring, control conscience environment, etc.);
- Go over the estimate timeframe to complete the engagement (e.g. start date, planning phase, fieldwork, initial audit report draft, end date, etc.);
- Arrange access to buildings, systems and data, personnel files, etc.
- Discuss factors that may impact the audit (e.g. scheduling conflicts, etc.)

Note: In the event that the point-of-contact is unable to provide the auditor with the requested information, the auditors will make every attempt to locate the information through other means. In addition, management can request to be carbon copied on all information requests made to the established point-of-contact.

PLANNING - BACKGROUND INFORMATION

During the planning phase, internal auditors are required to become familiar with the area under review. A request for background information will be sent to the point-of-contact seeking the following information:

- Organizational structure (i.e. organizational chart);
- Applicable laws, regulations, or special compliance issues that should be taken into account;
- Area’s mission statement, purpose/goals, etc. – the auditors may be able to obtain this information by accessing the department’s institutional effectiveness plan;
- List of full-time employees (FTE) and part-time employees;
- Budget data;
- Significant achievements;
- Other background information

PLANNING – PRELIMINARY INTERVIEWS

During the planning phase, internal auditors are required to become familiar with the area under review. The internal auditors may request to conduct preliminary interviews with staff to in order to become more familiar with the area’s system of internal controls. In some instance staff may be asked to complete an internal control questionnaire (ICQ). The ICQ is comprised of ‘yes’ or ‘no’ questions. A typical ICQ question would include, for instance, the following:

- Has your department established formal written procedures?
- Does your department handle cash?
- Have appropriate separation of duties been established?
- Have you completed an annual verification of your silver tagged assets?
- Etc.

PLANNING - ANALYTICAL PROCEDURES

During the planning phase auditors will perform analytical procedures, if applicable. The auditors may request information related to the following:

- Transaction activity from the prior fiscal years;
- Budget information;
- Actual transaction data;
- Other relevant information

PLANNING - RISK ASSESSMENT

During the planning phase the auditors are required to complete a risk assessment. Auditors must consider the area’s risks significant to the activity, its objectives, resources, and operations, and the means by which the potential impact of those risks are kept to an acceptable level. The department can expect the following from the internal auditors:

- Questions related to whether the department has completed a formal risk assessment;
- Questions related to whether the department has completed some other form of assessment similar to a risk assessment (e.g. SWOT analysis);
- Questions related to what area management’s main operational concerns are in achieving their objectives;
- Other questions necessary to completing a risk assessment

PLANNING – IDENTIFY CRITERIA

The internal auditors are required to obtain and review relevant criteria. Therefore, the auditors may request the following:

- Department policies and procedures;
- Process narratives;
- Information on applicable laws and regulations;
- Special compliance considerations (if applicable)

In the event that no formal criteria exists (e.g. lack of documented policy/procedures), the auditors will research industry best practices and may use this information in measuring against the current status of the College's internal controls.

INTERNAL AUDIT PROCESS – FIELDWORK PHASE

FIELDWORK PROCEDURES

The fieldwork phase of the audit concentrates on performing test work and informal communications between the internal auditors, the auditee, and key personnel. Fieldwork procedures are designed by the internal auditors based on an examination of criteria obtained and reviewed during the planning phase as well as the area's assessed risks. During this phase of the audit, the auditors will:

- Interview employees to develop a more detailed understanding of existing controls and processes;
- Request data from the point-of-contact for examination (e.g. data file, list of transactions, other support documentation);
- Conduct testing to verify the efficiency and effectiveness of internal controls ;
- Review support documentation to verify the effectiveness of an internal controls (e.g. verify that all approval signatures have been obtained, etc.);

Fieldwork procedures are unique to each audit depending on the department or process being reviewed. Each audit is meant to be risked-based, therefore, the results of the risk assessment will impact the design of the fieldwork procedures. Additionally, the type of audit will also impact the fieldwork procedures steps, for instance the fieldwork procedure steps applied to verify

compliance with a specific regulation will differ from fieldwork procedures steps used to verify the effectiveness of controls related to financial transactions.

Requests for information will be made to the point-of-contact. In the event that the point-of-contact is unable to provide the information, the internal auditors will make every effort to locate the support documentation (e.g. requesting the information from a separate department, traveling to a different location, etc.).

The internal auditor will update the auditee on the status of the audit on a regular basis, and will communicate potential audit findings as they are identified. Management is encourage to take steps to address these issues immediately (e.g. provide additional supporting documentation, explain special circumstances that should be taken into consideration).

The internal auditor conducting the fieldwork is responsible for clarifying and confirming the preliminary audit findings with the auditee and supervisor to ensure that these are factually correct and the auditee and supervisor have an opportunity to provide input. If necessary, the internal audit will communicate significant matters of concerns with high risk rating to the auditee, supervisor, and vice president.

Note: Describing a process or asserting that a procedure or internal control is in place is not enough to satisfy auditing Standards. Internal audits are required to obtain sufficient and adequate audit evidence in order to state that confirm that a control is in place.

INTERNAL AUDIT PROCESS – WRAP UP PHASE

WRAP UP - INITIAL AUDIT REPORT [DRAFT]

Following the completion of the fieldwork, the internal auditor will develop and issue the initial audit report [draft] which will include the audit's objective, scope, reported findings, etc. The initial audit report [draft] will be issued to the auditee, area supervisor, and vice president for their review. The initial audit report [draft] should be reviewed by each of the recipients to ensure that the report does not contain any inaccuracies. The auditee, area supervisor, and vice president will have an opportunity to discuss the content of the initial audit report [draft] with the internal auditor at the pre-exit conference.

WRAP UP - PRE-EXIT CONFERENCE

During the pre-exit conference, the internal auditors, auditee, area supervisor, and vice president, will cover the following:

- Address management's questions/concerns related to the initial audit report [draft] findings;
- Go over each of the reported findings and verbal audit recommendations;
- Discuss management's suggested revisions to the wording of reported finding(s) or other language contained in the report;
- Propose the removal of a reported finding (if applicable and pending a review of additional support documentation);
- Provide feedback to the internal auditor regarding the draft report and overall audit process;
- Discuss anticipated management responses;

If determined by the internal auditor that changes are necessary to the initial audit report [draft], the auditors will make revisions and will request the assistance of the auditee if necessary to provide additional support documentation.

Note: Verbal recommendations are provided to management at the auditor's discretion. They typically involve an audit finding that doesn't raise to the level of being reportable. For example, if a tested control was 98% effective the internal auditors would disclose the 2% error to the auditee through a verbal recommendation.

WRAP UP - REVISED AUDIT REPORT [DRAFT]

If determined by the internal auditor that revisions should be made to the initial audit report [draft], the auditors will make appropriate revisions and issue a revised audit report [draft] to the auditee, area supervisor, vice president, and president. The revised audit report [draft] will be issued within ten (10) working days after the pre-exit conference.

Once management receives the revised audit report [draft], they will have approximately fifteen (15) working days to review and include their management responses into the report. Along with the management responses, management will also be required to indicate an implementation date, and indicate who will be primarily responsible for implementing management's corrective

action plan. The implementation date is the anticipated target date to as to when corrective action will be completed.

WRAP UP - MANAGEMENT RESPONSES

The auditee will prepare management responses in consultation with staff and the area's vice president within three (3) weeks and also include anticipated implementation dates. It is the internal auditor's prerogative to provide audit recommendations, regardless if the auditee or management agree. Similarly, it is management's prerogative to select one of the following in response to each reported exception:

- Accept the audit recommendation, as presented
 - Provide an estimate time for implementation (e.g. implementation date);
 - Provide a detailed response for implementing correcting action(s)
- Accept the audit recommendation, detailing alternative corrective action
 - Provide an estimate time for implementation (e.g. implementation date);
 - Provide details on the planned alternative corrective action(s)
- Reject the audit recommendation
 - Provide reason(s) for rejecting the audit recommendation;
 - State that management accepts the risk for rejecting the audit recommendation;
 - Ignore the implementation date, it is not required for rejected audit recommendations

WRAP UP - EXIT CONFERENCE

Subsequent to receiving management's feedback, the internal auditor will update the revised audit report [draft] to include all of the management responses and implementation dates. A final exit conference will be schedule. At the exit conference the following will be discussed:

- Final review of the report while still in draft form;
- Address any management's questions/concerns;
- Final opportunity to submit documentation for review or request revisions prior to finalizing the report;
- Request authorization from the vice president to authorize the finalization of the audit report

After the exit conference is held, the vice president will be asked to provide the auditor with written authorization to finalize the audit report. The authorization may be sent via e-mail notification.

Note: The internal auditors will accept documentation anytime during the audit process (e.g. planning phase – exit conference). However, once the auditors receive formal notification from the vice president to finalize the report, subsequent support documentation will NOT be taken into consideration. Any documentation identified after the audit report is finalized will be examined during follow-up procedures.

WRAP UP - FINAL AUDIT REPORT

Once authorization is received from the vice president, the internal auditor will finalize the audit report. This process includes the following:

- Removing the 'DRAFT' watermark;
- Adding a table of contents;
- Signing and dating the report;
- Adding a memo to the president;

The final audit report including all reported findings, management responses, and implementation dates will be issued to the auditee, area supervisor, vice president, and president.

The president will then make the final decision to include the final audit report on the next Finance, Audit, and Human Resources Committee agenda.

WRAP UP - PRESENTATION TO FINANCE, AUDIT, AND HUMAN RESOURCES COMMITTEE

A copy of the final audit report is submitted and presented by the Internal Auditor to the Finance, Audit, and Human Resources Committee at the upcoming meeting for consideration. The Finance, Audit, and Human Resources Committee may comment on a particular audit finding and recommendation, which will be addressed by the internal auditor and through the audit follow-up process.

INTERNAL AUDIT PROCESS – FOLLOW UP

FOLLOW UP - PROCEDURES

Once management's selected implementation date for corrective action is expired, the internal auditors shall complete follow up procedures. The objective of follow up procedures is to verify that management has taken the necessary corrective action to address each of the audit findings. Follow up procedures include the following:

- Request to review any documentation to support that corrective action has been implemented;
- Observe that a new process has been implemented;
- The internal auditor will communicate with management the final results of the follow up procedures and indicate whether management's corrective action has been fully implemented, partially implemented, or not implemented;
- Provide the auditee, area supervisor, and vice president with a status update of the result of the follow up procedures;
- Provide the president with a status update of the results of the follow up procedures (e.g. spreadsheet indicated the status of management's corrective actions);

Note: Once the President receives the results of the follow up procedures, a decision will be made on whether to include the results on the next Finance, Audit, and Human Resources Committee agenda.

FOLLOW UP - PRESENTATION TO FINANCE, AUDIT, AND HUMAN RESOURCES COMMITTEE

A copy of the results of the follow up procedures is submitted and presented by the Internal Auditor to the Finance, Audit, and Human Resources Committee at the upcoming meeting for consideration. The Finance, Audit, and Human Resources Committee may comment on the status of implementation for a particular audit finding, which will be addressed by the internal auditor.