UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT STRATEGIC PLAN

Overview

Internal audit (IA), perhaps more than any other finance function, has adapted to meet the business challenges of a radically evolving business climate. The rapid shift to a global economy, the embrace of electronic communication and transaction processing, numerous financial scandals and the subsequent regulatory fallout, and the post 9/11 recognition of the critical importance of precise risk assessments have placed internal auditors in the corporate spotlight as the "go to" team for myriad business needs; and these impacts in the corporate world have also cascaded into the world of higher education and healthcare.

IA's expanding role includes advising and educating senior managers and boards of trustees on university governance, organizational ethics, partnership risk, fraud prevention, best practices, knowledge management, and business process efficiency. IA also provides an unflinching critique of managerial oversight of risk and internal controls. While these assignments do not widen IA's purview, they require a much deeper knowledge and involvement than ever before.

As demand for internal audit employees soars, universities that apply best practices are enticing them with innovative recruitment and retention strategies such as ongoing training, generous work-life benefits, and measures to ensure interesting work opportunities. Leading universities also maximize their IA resources with automated audit processes, creative co-sourcing arrangements, flexible staffing models, and a steady transition to continuous auditing.

Strategic Plan "Pillars"

Recognizing that IA is a value-adding function that contributes to the organization, best practices universities are investing in their internal audit staffs to produce IA functions that contribute to the university in myriad ways. Whether as a management talent pool, as business consultants or experts on internal control and financial reporting systems, or as a pillar of the university's governance system, internal auditors at leading universities such as the University of Toledo continually seek to enhance the value of the organization.

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- [Build an internal audit staff that supports the needs of the business.](#)
  University of Toledo will build its IA staff as knowledge resource centers that serve in the dual roles of assurance and business advisors. The first step in realizing a value-adding IA function is to assemble a versatile, seasoned, and comprehensive talent pool to carry out the IA mission, a task complicated by the heated competition to hire and retain talented audit professionals.

  The University of Toledo will formalize the purpose of its IA function to align with the value drivers identified by management and the finance and audit committee, using that as a template to create the departmental mandate and determine the appropriate mix of talent to fulfill that mandate. Hiring people whose training and business experience match IA's business objectives, supplemented by targeted training programs, the University of Toledo will ensure it possesses an IA staff with the appropriate skill sets to fulfill the department's mission.

  The IA mandate varies between organizations, whether it is to assess risk and controls, enhance efficiency through business consulting, act as a training ground for business unit management, or a combination of all of these. Regardless, the University of Toledo will invest in a core staff of seasoned, versatile internal auditors as the foundation of a solid IA function, but build a degree of flexibility into the IA staffing model to accommodate a fluctuating risk profile.

  Recognizing the significant contributions that the IA departments make to the University, the University of Toledo will staff its IA department with auditors with diverse backgrounds, encourage professional certifications, retain experienced staff members, and tailor its staffing model to meet its business needs.

- [Structure the internal audit department on a fluid, flexible framework.](#)
  The University of Toledo will readily adjust to a continuous stream of internal and external forces that can affect its strategies and operations. These influences may include new technology, stricter regulations, shifting customer preferences, and tougher competition. The University of Toledo will create its IA processes and structure its IA department to adapt to changing business priorities.

  A flexible IA department allows a university to maintain a risk management program coordinated with new business risks that accompany change. Flexibility also allows IA to operate with a customer focus, assuring that audit activities align with management priorities and address significant risk and enabling the most efficient and effective allocation of its audit resources.

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- Create an enterprise-wide risk-based audit program.
The University of Toledo will build its audit plans on a risk-based schedule help to ensure that university strategy and value-adding activities drive operations of its internal audit department. Risk-based audits use audit resources more efficiently, focus the attention of management and the board on key risks, and allow a degree of flexibility that enables the university to adjust to shifting priorities.

  Risk-based audits follow a thorough risk assessment that allows IA to target high-risk areas with a university-wide perspective, a concept embedded in the standards of The Institute of Internal Auditors (IIA). By educating and empowering process owners to identify risk and by fostering continual communication of risk-related knowledge between management and process owners, the University of Toledo helps position the organization to respond effectively to changing risk profiles.

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- [Broaden audit scope to address third-party and vendor risk.](#)
  The University of Toledo will recognize the strategic advantages of partnerships, such as outsourcing, supplier agreements, and joint ventures. By pooling its resources and sharing risk, the University of Toledo will leverage each other's physical and intellectual capital to reach mutually beneficial goals. However, the business landscape is littered with outsourcing agreements that ended acrimoniously, joint ventures that did not achieve their goal, and supplier partnerships that soured because of shoddy products or ethical lapses by one or both parties.

  In response, the University of Toledo will mitigate downstream risk and liability by proactively performing risk assessments and, when appropriate, audits of potential high-risk business partners. By examining prospective partnerships in advance, the internal auditors apply a risk prevention strategy that allows the University of Toledo to avoid potential problems. Because of their university-wide knowledge, the internal auditors can identify risk that may not be clear to executive management or external auditors.

  While some of these audit activities are not normally associated with IA, the University of Toledo will modify its audit charter to expand the scope of its IA department beyond the University's borders. Some universities are large enough--or are involved in a large enough number of alliances, agreements with service providers, and partnerships--to require fully staffed third-party audit departments or monitoring functions. Although a smaller university such as the University of Toledo may not have the resources to create these comprehensive capabilities, it will take a proactive approach to assessing risk inherent in third-party agreements.

  Examining business partners and vendors has become especially important for companies publicly traded on U.S. exchanges since passage of the Sarbanes-Oxley (S-O) Act of 2002. S-O mandates certification of the internal controls of third-party service providers when the outsourced processes materially affect the company's financial results or directly involve the company's financial reporting process. The law also requires senior executives to certify the effectiveness of internal controls. While the University of Toledo is not bound by S-O, it can and will benefit from the internal control discipline the Act promotes.

  The University of Toledo will curtail partnership risk by requiring third-party verifications, such as reports following guidelines of the Statement on Auditing Standards No. 70 (SAS 70) of the American Institute of Certified Public Accountants (AICPA). Other measures include working with the vendor's IA department to verify the company's internal controls and making sure IA plays an early, proactive role in the outsourcing process. By expanding the breadth of its risk assessment and audit resources, the University of Toledo will protect itself from downstream liability and help ensure that proposed partnerships achieve their objectives.

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- [Combat fraud by advocating high ethics throughout the organization.](#)
  The University of Toledo will confront three specific types of fraud: asset misappropriation, such as theft of cash or assets; corruption, such as bribes and kickbacks; and fraudulent financial reporting, such as false financial information provided to lenders, investors, and regulators. Although the exact damages attributable to fraud are difficult to calculate, fraud experts estimate the losses total billions worldwide. Fraud costs, however, far exceed direct monetary losses. Fraud usually prompts additional loss in the form of regulatory fines, remedial policies and controls, reduced market share, and diminished reputation. Additionally, the effects of fraud often cascade beyond the victimized university as investors grow distrustful of university balance sheets in general.

  Conventional practice mandates that the companies implement internal control systems to deter or detect fraud. However, even with the renewed focus on internal controls prompted by regulations such as S-O (and comparable regulations in higher education), reliance on controls alone cannot stop fraud. The University of Toledo will curtail fraud by building its internal control system on a university-wide ethics and compliance infrastructure that addresses the fundamental issues that motivate fraudulent behavior. Strong ethics programs offer employees training and guidance in approaching and resolving situations that pose ethical conflicts. Conduct codes proscribe specific actions and behaviors that the company deems unacceptable for continued employment. The University of Toledo's strong code of ethics, code of conduct, and strong compliance programs exhibit an enterprise-wide culture of integrity, proactively discouraging fraud within the organization.

  While management is ultimately responsible for instituting ethics and compliance programs, IA will contribute by monitoring and evaluating the effectiveness of those programs and--with provisions to maintain independence and objectivity--acting as impartial advisors during program design.

  By applying its knowledge of the organization and its expertise in internal controls and ethics, IA will support management in fostering a culture of high ethical standards and thus plays a proactive role in deterring fraud.

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- [Collaborate with the information technology department to mitigate information systems risk proactively.](#)
  Information technology (IT) permeates every aspect of business, as technology that was conceived as data storage tools now drives and redefines the operations of virtually every leading organization in the world.

  As technology evolves, however, new breakthroughs bring unanticipated consequences that profoundly reverberate throughout a university. With such a wide scope of risk, information systems command their own focused risk assessment and audit as part of the University of Toledo's risk-based audit program.

  The University of Toledo will invest in a solid IT governance framework and approach IT governance as an essential component of the University's overall governance program, instilling the same culture of integrity, accountability, and transparency.

  Since the passage of S-O in the U.S. and similar laws requiring certification of internal controls over financial reporting, IT has taken on even greater significance in corporate governance. The preeminent role of IT in transaction processing and financial reporting has given strong IT risk management major importance in compliance programs. Once again, while the University of Toledo is not bound by S-O, it can and will benefit from the internal control discipline in the IT area that the Act promotes.

  Proactively fashioning a solid IT governance infrastructure significantly simplifies sustained compliance. Effective IT risk control delivers value by complementing the University of Toledo's overall strategy and objectives, reduces overall IT costs, lessens system complexity, and enhances IT flexibility and change management.

  IA will play an essential role in managing IT risk not only by assessing systems risk, but also by collaborating with technology directors and executive management in all phases of technology projects. IA's university-wide knowledge and risk assessment skills help to identify risks and needed controls before the system is installed. Such proactive assessments reduce the number and cost of retroactive quick fixes, prevent piecemeal solutions to underlying problems, ensure that proper controls and procedures are in place for systems conversions and implementation, and assess the effectiveness of security policies and procedures by testing systems compatibility.

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- [Position internal audit as a supporting pillar of the University's governance structure.](#)
  The University of Toledo will exemplify ethics and transparency with robust University governance programs; in so doing, it will lower its cost of capital and attract top-tier talent throughout the entire organization even in today's climate of heightened regulatory scrutiny.

  Three separate but interdependent entities administer the University of Toledo governance program. Senior management institutes and maintains effective internal control systems. The board and its finance and audit committee oversee management on behalf of the taxpayers of the State of Ohio. The third group--assurance providers such as compliance monitors, health and safety officers, and the internal and external auditors--assess the effectiveness of internal controls, verify the integrity of the University of Toledo's financial statements, and monitor compliance with applicable laws and regulations.

  IA will act as an intermediary between management, audit customers, and the board, providing independent and objective risk and control assessment services. The University of Toledo will create a robust IA function that has the independence, funding, talent, and technology necessary to objectively attest to and verify the University's system of internal controls and University governance to protect University assets and identify opportunities for process improvement.

- [Embrace technology to support and drive the audit process.](#)
  As IA responsibilities broaden, the University of Toledo will embed technology in all facets of internal auditing to enable its staff to work with greater speed and accuracy by implementing new CAATs. Viewing technology as a capacity extender, the University of Toledo IA department will increase productivity with automated work papers, data mining and extraction tools, and standardized work processes. These steps will free auditors to apply their risk assessment and analytical skills more fully.

  As finding and retaining qualified talent becomes more problematic, technology plays a larger role in attracting and developing a high-caliber IA staff, because younger workers are attracted to universities with cutting-edge technology.

  Taking a three-pronged approach to technology, the University of Toledo will continually seek to upgrade its audit abilities by purchasing or developing new audit software, by training auditors in using and understanding the applications of those programs, and by updating the audit process to include protocols to identify new uses for audit software.

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- **Establish internal audit as the university-wide resource center for risk, control, and best practices information.**
  Internal auditors traveling throughout the University systematically accumulate knowledge about operations, risk and controls, and business process best practices. This knowledge sometimes stays with the auditor or the IA department, or remains in audit reports, forgotten as auditors move on to new projects.

  The University of Toledo will recognize the value of IA's cumulative knowledge and will formalize the process by which auditors gather and disseminate information, empowering the IA function to act as a University-wide knowledge center and facilitator. With web-accessible databases to store information, IA will house information to help managers increase business process efficiency, tighten their internal controls, and gain a fuller understanding of enterprise risk. Simultaneously, IA will use these knowledge-sharing platforms to improve the IA function, increasing the efficiency of the audit process and leveraging accumulated knowledge to issue audit reports more quickly and make value-adding audit recommendations.

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- Assess the audit process continually to effect improvement.
  Without a systematic improvement methodology, business processes become outmoded as the organization adapts to an evolving business environment. IA is no exception, already having undergone significant transformation in recent times. The University of Toledo will ensure the relevance of IA by embedding a continuous quality improvement system into the audit process to constantly assess and enhance IA, keeping it poised to meet the University's assurance needs and increasing its value to IA stakeholders.

  The University of Toledo will implement several assessment mechanisms to gauge and objectively rate IA's benefit to the University. These tools include key performance and quality measures and formal quality assessments by independent experts and IA staff to identify improvement opportunities within the IA function.

- Communicate with clarity, brevity, and accuracy.
  Excellent communication is a core competency of internal auditors, as it is essential in virtually all facets of the profession. Internal auditors need to be skilled writers, proficient facilitators, tactful advisors, effective marketers and sellers, attentive listeners and interviewers, diplomatic negotiators, and accomplished public speakers.

  Thus, the University of Toledo will make communication a cornerstone of professionalism within its internal audit (IA) staff. By conducting ongoing communication training, exploring new technology to distribute audit reports, and continually refining IA's communication vehicles, the University of Toledo will maintain more effective and efficient relationships with audit stakeholders and customers.