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INTERNAL AUDIT MANUAL

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INTRODUCTION

The staff of George Mason Internal Audit and Management Services has prepared this Internal Audit Policies and Procedures Manual for use in guiding our internal audit program. We recognize that some changes to this document may be necessary in order to ensure that the Manual is current. Therefore, this manual, in its entirety, will be reviewed as necessary.

The Manual provides guidance in the form of:

- Internal audit standards;

- Internal audit policies and procedures; and

- Internal audit charter.

The audit team is proud of this production. We will be in full compliance with its direction on an ongoing basis. All new members are required to read for retention the contents of this Manual.

This Manual was developed using resources from the Virginia Commonwealth University.

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MISSION STATEMENT

Internal Audit and Management Services will proactively and independently identify and assess key business risks and will be a catalyst for improving the quality of controls, operations, strategies, and plans on behalf of students and members of the University.

GUIDING PRINCIPLES

To achieve our Mission, Internal Audit and Management Services will adhere to the following guiding principles:

- Maintain objectivity at all times; rely on business and professional judgment; and adhere to professional standards;

- Anticipate risks and opportunities for improvement;

- Develop a highly motivated professional staff who will contribute to a high level of quality controls and operations, and be sought by management for assignments and career opportunities;

- Maintain a strong partnership with the Audit Committee, management, and the external auditors to enhance our effectiveness.

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THE AUDIT PROCESS - HOW WE WORK WITH THE CLIENT

The most successful audit projects are those in which the client and Internal Audit and Management Services have a constructive working relationship.

Our objective is to have the client's continued involvement at every stage, so that they understand what we are doing and why we are doing it.

Although every audit project is unique, the audit process is similar for most engagements and normally consists of four stages: Preliminary Review, Field Work, Audit Report, and Follow-up Review. Client involvement is critical at each stage of the audit process. As in any special project, an audit results in a certain amount of time being diverted from a unit's usual routine. One of our key objectives is to minimize this time and avoid disrupting the on-going activities.

AUDIT PROCESS

- **Announcement Letter**

   The client is informed of the audit project through an announcement letter from the Director. This letter communicates the scope and objectives of the audit and the auditor(s) assigned to the project.

- **Initial Meeting**

   During this meeting, the client describes the unit or system to be reviewed, the organization, available resources (personnel, facilities, equipment, funds), and other relevant information. The internal auditor meets with the senior officer directly responsible for the unit under review and any staff members he/she wishes to include. It is important that the client identify issues or areas of special concern that should be addressed.

PRELIMINARY REVIEW

First we gather information about the processes. We then review and evaluate the existing internal control structure and identify the fieldwork objectives. Finally, we plan the remaining audit steps necessary to achieve our objectives.

- **Preliminary Survey**

   In this phase the auditor gathers relevant information about the unit in order to obtain a general overview of operations. He/she talks with key personnel and reviews reports,

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files and other sources of information.

- **Internal Control Review**

  The auditor will review the unit's internal control structure, a process, which is usually time-consuming. In doing this, the auditor uses a variety of tools and techniques to gather and analyze information about the operation. The review of internal controls helps the auditor determine the areas of highest risk and design tests to be performed in the field work section.

- **Audit Program**

  Preparation of the audit program concludes the preliminary review phase. This program outlines the fieldwork necessary to achieve the audit objectives.

FIELD WORK

The field work concentrates on transaction testing and informal communications. It is during this phase that the auditor determines whether the controls identified during the preliminary review are operating properly and in the manner described by the client. The field work stage concludes with a list of significant issues from which the auditor will prepare a draft of the audit report.

- **Transaction Testing**

  After completing the preliminary review, the auditor performs the procedures in the audit program. These procedures usually test the major internal controls and the accuracy and propriety of the transactions.

- **Advice and Informal Communications**

  As field work progresses, the auditor discusses any significant issues with the client. Hopefully, the client can offer insights and work with the auditor to determine the best method of resolving the issue. Usually these communications are oral. However, in more complex situations, memos can be written in order to ensure full understanding by the client and the auditor. Our goal: No surprises.

- **Audit Summary**

  Upon completion of the fieldwork, the auditor summarizes the audit issues, conclusions, and action to be taken (as agreed upon by both auditor and client) for the audit report discussion draft.

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AUDIT REPORT

Our principal product is the final report in which we express our opinions, present the audit issues, and action to be taken for improvements. To facilitate communication and ensure that the final report is practical, Internal Audit and Management Services will discuss the rough draft with the client prior to issuing the final report.

- **Discussion Draft**

    At the conclusion of field work, the auditor drafts the report. Audit management thoroughly reviews the audit working papers and the discussion draft before it is presented to the client for comment. This discussion draft is prepared for the unit's operating management and is submitted for the client's review before the exit conference.

- **Exit Conference**

    When audit management has approved the discussion draft, Internal Audit and Management Services meets with the unit's management to discuss the issues and text of the draft. At this meeting, the client comments on the draft, and the group works to reach an agreement on the audit issues.

- **Draft Report**

    The auditor then prepares a formal draft, taking into account any revisions resulting from the exit conference and other discussions. When the changes have been reviewed by audit management and the client, the draft report is issued.

- **Transmittal Letters**

    The first page of the draft report is a letter requesting the client's review and responses to the report. In some cases, managers may choose to respond with a decision not to implement any action to be taken and to accept the risks associated with an audit issue. Responses are then incorporated into the Final Report.

- **Final Report**

    Internal Audit and Management Services prints and distributes the final report to the unit's operating management, the unit's reporting supervisor, the Senior Vice President, appropriate senior University management, and the Audit Committee members of the Board of Visitors. This report is primarily for internal University management use. The approval of the Internal Audit and Management Services Director is required for release of the report outside of the University.

- **Client Comments**

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Finally, as part of the Department's self-evaluation program, we ask clients to comment on the Department's performance. This feedback should prove to be very beneficial to us, and we can make changes in our procedures as a result of clients' suggestions.

AUDIT FOLLOW-UP

Within approximately one year of the final report, the Department will perform a follow-up review to verify the resolution of the issues noted in the report.

- **Follow-up Review**

   Actions to be taken and the actions taken are reviewed in order to determine if the desired result was achieved on the audit issue. All unresolved issues will be discussed in the follow-up report.

- **Follow-up Report**

   The review will conclude with a follow-up report, which lists the actions taken by the client to resolve the original report issues.   Unresolved issues will also appear in the follow-up report and will include a brief description of the issue, additional action to be taken, current condition, and the continued exposure to the University. A discussion draft of each report with unresolved issues is circulated to the client before the report is issued. The follow-up review will be circulated to the original report recipients and other University officials as deemed appropriate.

THE PROCESS: A COLLABORATIVE EFFORT

As we have pointed out, during each stage in the audit process -- preliminary review, field work, audit report, and follow-up -- clients have the opportunity to participate. There is no doubt that the process works best when client management and Internal Audit and Management Services have a solid working relationship based on clear and continuing communication.

Many clients extend this working relationship beyond the particular audit. Once we have worked with them on a project, we have an understanding of the unique characteristics of their unit's operations. As a result, we can help evaluate the feasibility of making further changes or modifications in their operations.

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IIA GUIDANCE
PROFESSIONAL PRACTICES FRAMEWORK

In June of 1999, the Institute of Internal Auditors (IIA) Board of Directors voted to approve a new definition of internal auditing and a new ***Professional Practices Framework.*** Both were based on the recommendations of the Guidance Task Force, a special committee of the IIA charged with examining the adequacy of standards and guidance for the practice of internal auditing at the time. The Task Force concluded that a new framework was needed to carry the profession into the 21st century. In order to meet this goal, the IIA developed the ***Professional Practices Framework*** (*PPF*).

The *PPF* consists of three categories of guidance: Standards and Ethics, Practice Advisories, and Development and Practice Aids. The first category of Mandatory Guidance consists of the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards) and is considered to be essential for the professional practice of internal auditing.

The purpose of the Institute's Code of Ethics is to promote an ethical culture in the profession of internal auditing. The purpose of the Standards is to:

*   Delineate basic principles that represent the practice of internal auditing as it should be;
*   Provide a framework for performing and promoting a broad range of value added internal audit activities;
*   Establish the basis for evaluation of internal audit performance; and
*   Foster improved organizational processes and operations.

The Standards, as described within the *PPF*, consist of 1) *Attribute Standards:* which address the characteristics of organizations and parties performing internal audit activities; 2) *Performance Standards:* which describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated; and 3) *Implementation Standards:* which apply to specific types of engagements, such as, assurance and consulting activities.

OVERVIEW

    Attribute Standards

       1000 – Purpose, Authority, and Responsibility
       1100 – Independence and Objectivity
       1200 – Proficiency and Due Professional Care

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1300 – Quality Assurance and Improvement Program

Performance Standards

2000 – Managing the Internal Audit Activity
2100 – Nature of Work
2200 – Engagement Planning
2300 – Performing the Engagement
2400 – Communicating Results
2500 – Monitoring Progress
2600 –Management's Acceptance of Risk

Guidance in the second category, the Practice Advisories, is strongly recommended and endorsed by the IIA. The third category of guidance, Development and Practice Aids, includes a variety of materials that are developed and/or endorsed by the IIA.

Internal Audit and Management Services (IA&MS) department will comply with the IIA's guidance in carrying out its activities. All professional staff within the IA&MS Department should have detailed knowledge and understanding of IIA's Guidance as prescribed at http://www.theiia.org/.

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INTERNAL AUDIT AND MANAGEMENT SERVICES DEPARTMENT CHARTER

Adopted by University management and the Audit Committee of the Board of Visitors

_____	_____10-08-03_____
Maurice Scherrens, Senior Vice President	Date
_____	_____10/13/03_____
Mel Chaskin, Chairman, Audit Committee	Date

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MISSION

The mission of the Internal Audit and Management Services is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. It helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

SCOPE OF WORK

The scope of work of the internal audit function is to determine whether the University's network of risk management, control and governance processes, as assigned and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.

- Significant financial, managerial, and operating information is accurate, reliable, and timely.

- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.

- Resources are acquired economically, used efficiently, and adequately protected.

- Programs, plans, and objectives are achieved.

- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

ACCOUNTABILITY

The Director of Internal Audit and Management Services, in the discharge of his duties, shall be accountable to management and the audit committee to:

- Provide annually an assessment on the adequacy and effectiveness of the University's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.

- Report significant issues related to the processes for controlling the activities of the University and its affiliates, including potential improvements to those processes, and provide information concerning such issues.

- Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

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INDEPENDENCE

To provide for the independence of the internal auditing function, its personnel report to the Director of Internal Audit and Management Services, who reports functionally to the audit committee and administratively to the senior vice president.

RESPONSIBILITY

The Director of Internal Audit and Management Services has the responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval as well as periodic updates.

- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the audit committee.

- Maintain a professional audit staff with sufficient knowledge, skills, and experience to meet the requirements of this Charter.

- Issue periodic reports to the audit committee and management summarizing results of audit activities.

- Perform investigations of suspected fraudulent activities within the University and notify management and the audit committee of the results.

- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the University.

AUTHORITY

The Director of Internal Audit and Management Services is authorized to:

- Have unrestricted access to all functions, reports, property, and personnel.

- Have full and free access to the audit committee.

- Allocate resources, set frequencies, select subject, determine scope of work, and apply the techniques required to accomplish audit objectives.

- Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the University.

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The Director of Internal Audit and Management Services is not authorized to conduct any services that would jeopardize the independence of himself or the internal audit function, such as performance of any operational duties for the University or its affiliates, or direct the activities of any University employee not employed by the internal audit function.

STANDARDS OF AUDIT PRACTICE

The Internal Audit and Management Services department adheres to the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. In addition, the department obtains guidance from the generally accepted authoritative auditing standards of other professional auditing organizations, such as:

- The American Institute of Certified Public Accountants
- Association of Certified Fraud Examiners
- United States General Accounting Office
- Information Systems Audit and Control Association

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EXHIBIT A
INTERNAL AUDIT AND MANAGEMENT SERVICES
ORGANIZATION CHART

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                           ┌──────────────────────┐
                           │   Board of Visitors   │
                           └──────────────────────┘
                                      │
┌──────────────┐          ┌──────────────────────────┐
│              │          │ Internal Audit & Management│
│  President   │----------│    Services Director      │
│              │          │     Kenneth Hubble        │
└──────────────┘          └──────────────────────────┘
                                      │         ┌──────────────────┐
                                      │─────────│    Executive     │
                                      │         │    Secretary     │
                                      │         │  Debbie Gladden  │
                                      │         └──────────────────┘
                           ┌──────────────────────┐
                           │ Internal Audit Manager│
                           │     Alka Rastogi      │
                           └──────────────────────┘
                                      │
   ┌──────────────┬──────────────────┼──────────────────┬──────────────┐
┌──────────┐ ┌──────────┐      ┌──────────┐      ┌──────────┐
│Integrated│ │Senior    │      │Senior    │      │Junior    │
│Auditor   │ │Internal  │      │Internal  │      │Internal  │
│Carol     │ │Auditor   │      │Auditor   │      │Auditor   │
│Westbrook │ │Bing Young│      │Richard   │      │Ali       │
│          │ │          │      │Cheney    │      │Sharifi   │
└──────────┘ └──────────┘      └──────────┘      └──────────┘
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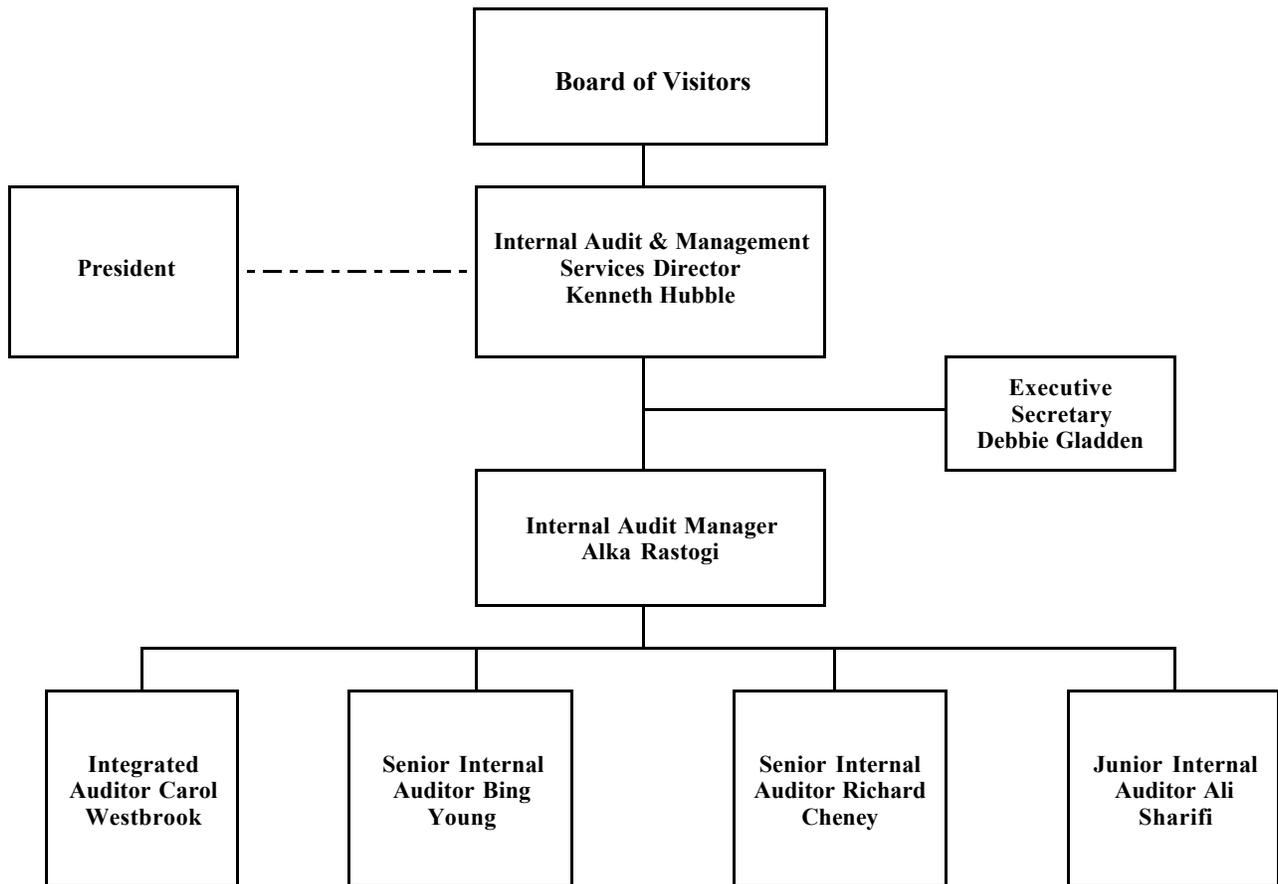
Note: The Department shall report directly to the Audit Committee of the Board of Visitors. The Audit Committee shall approve the Department's planned activities and budgeted hours. The President has delegated day-to-day administrative matters to the Senior Vice President.

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OFFICE POLICIES AND PROCEDURES

Internal Audit and Management Services (IA&MS) personnel are expected to conduct themselves in a professional manner at all times. To support the technical aspects of this manual the following general office policies have been developed.

CONFIDENTIALITY

IA&MS frequently deals with information of a confidential nature. It is expected that all employees will treat confidential information in an appropriate manner. Breach of confidentiality is considered grounds for dismissal.

THE WORK DAY/LEAVE/TIMEKEEPING

Each employee shall identify his or her standard work hours to the IA&MS Director for approval. If the Director approves it, employees have the option to work flextime. The Director reserves the right to establish each individual's work schedule to meet the needs and responsibilities of this office.

When an employee is working outside of the department office, there is a sign-out board in the office so that an employee can be located in the event of an emergency.

All employees accrue leave in accordance with State policy based on their years of service. When leave is to be taken, it should be approved by the Director in advance whenever possible. When an employee is out on unscheduled leave they should notify the office as soon as possible. Employees are expected to work as required to complete the assignments that they have been given; under special conditions, when overtime is deemed to be required by the Director, compensatory time will be granted for hours worked outside the normal day. Compensatory leave should be approved in advance, by the Director.

The department manages its available hours based on information from a timekeeping system. Each employee should complete a timesheet for each pay period on the day following the end of the pay period. The timesheet should be signed by the Director and submitted to the department secretary to be entered into the timekeeping system within two days of the end of each pay period. The department secretary will enter the hours as charged into the timekeeping system and distribute reports as they have been requested.

TRAVEL

All travel associated with department business, including training, will be reimbursed in

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accordance with state policy.

Employees should complete a Request for Travel Authorization as soon as it is known that travel will be necessary. This form should be completed and approved before travel arrangements are finalized. Based on the information submitted on the form, the department secretary will make the necessary arrangements for advances, registration, travel and accommodations. The employee who is traveling will be provided with confirmation numbers for accommodations and tickets, including boarding passes for travel.

Within five days of returning from a trip, an employee should complete a Travel Reimbursement Form to obtain reimbursement for the expenses incurred while on University business. The reimbursement amount will be in accordance with current state policy. Each employee is responsible for knowing and adhering to State reimbursement policies and limits. The form should be submitted to the Director for approval and will be processed by the department secretary.

PROFESSIONAL CERTIFICATIONS

As outlined in the Professional Proficiency section of this manual, individuals are expected to seek professional certifications. The department will reimburse the employee for the cost of passed portions of the exam when the process is complete. Appropriate receipts should be submitted to the department secretary for processing.

KEYS

All employees will be issued keys to the department offices. Because of the confidential nature of the work performed by the department, these keys should be safeguarded appropriately. In the event that an employee's keys are lost, the Director should be notified immediately.

SMOKING

The department office is designated as a nonsmoking workplace.

FILES

All central department files are maintained by the department secretary. There are two major file types: 1) Audit workpaper files, which are maintained for a period of 5 years or longer, at which time they will be reviewed and destroyed as appropriate. 2) General office files, which include correspondence, departmental administrative files, personnel files, publications, and files relating

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to professional organizations, and committees. These files will be reviewed on an annual basis and purged as necessary.

GENERAL OFFICE EQUIPMENT

Maintenance of general office equipment is the responsibility of the department secretary. If an employee encounters a problem, the secretary should be notified immediately; the secretary will either resolve the problem or will arrange for service.

PERSONNEL EVALUATIONS

Internal Audit employees will be evaluated on an individual audit basis. The state-mandated performance evaluation and plan will be completed by October 31 of each calendar year. This plan provides the framework for employee and Director to discuss strengths, weaknesses, and progress toward performance goals upon completion of each audit. Training needs will be identified to address areas to be strengthened.

SECURING WORKPAPERS

When an auditor is working in the field, care should be taken to secure audit workpapers. They are to be in the physical possession of the auditor at all times. The auditor should take the papers home at the end of the workday.

PHONE USAGE

No personal long distance phone calls will be allowed. Please limit personal calls, as the University is charged $.11 per call.

OFFICE ATTIRE

Professional dress is required Monday through Thursday; Friday will be considered "dress down" day unless the auditor has a meeting. Casual slacks/pants and a pull over top/shirt are acceptable (no jeans). Professional dress is required for all meetings.

Note: Please refer to the State Employee Handbook for further references regarding regulations.
These and all State regulations will be strictly adhered to by employees of Internal Audit and Management Services, without exception.

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PROFESSIONAL PROFICIENCY

The Institute of Internal Auditors (IIA) Attribute Standard 1210, specifies that engagements should be performed with proficiency and due professional care.

The Director of Internal Audit & Management Services (IA&MS) should ensure that the technical proficiency and educational background of the Department's internal auditors are appropriate for the audits to be performed. Every effort should be made to provide a "blend" of experience, which will ensure that audit of individual units, are conducted competently and in compliance with the Standards, as well as to foster the growth and development of the individual staff members.

ORIENTATION PERIOD

Initially, a new internal auditor should be introduced to the:

- Agency or institution's organization structure;
- Procedural and administrative matters;
- Internal auditing standards and ethics;
- Department's audit staff and background of other staff members;
- Audit procedures and techniques; and
- Expectations relative to performance.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF THE INTERNAL AUDITOR

Professional development is a joint responsibility between the auditor and the Director. The auditor is responsible for seeking the desired education or expertise based on his/her needs. The following opportunities offered through outside organizations should be considered when establishing an auditor's professional development program:

- Participation in professional associations;

- Attending courses and seminars necessary for retention of a professional association certification;

- Attending courses and seminars that impact the auditor's audit specialty areas or broaden his/her understanding of operations;

- Attending courses and seminars that enhance the auditor's overall understanding of auditing and technical accounting subjects – such as advanced financial or operational auditing seminars;

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- Books, magazine articles, essays and journals that will broaden the auditor's understanding of management, auditing and related disciplines; and

- Attending courses on management techniques.

ON-THE-JOB TRAINING

In addition to the above types of training opportunities, on-the-job training should be provided to staff members on a continuous basis. Some objectives that should be considered for the on-the-job training program are that:

- Personnel are educated concerning the significance of work they are performing in relation to the entire audit program;

- Individuals are assigned diverse job tasks;

- Individual knowledge and job skills are increased; and

- Individuals are being prepared for more advanced training and assignments.

CONTINUING PROFESSIONAL EDUCATION REQUIREMENTS

IA&MS has designated a minimum of 40 training hours to be attained by each staff member annually in order to advance the knowledge, skills and abilities of each individual.

While a minimum annual continuing professional education has been established, the composition of training requirements by individual professional auditing/accounting associations varies. As a result, training plans should ensure that specific requirements of the professional auditing associations are met for individual members of the audit staff.

THE INTERNAL AUDITOR DEVELOPMENT RECORD

The Internal Auditor Development Record (Exhibit A) was created to assist the audit director in planning a training program and to document the training that has been received or is recommended for the future.

Documentation of completed training is necessary for proper planning of future training and for assurance that all certification and Internal Auditing Charter requirements are being met. The development record should be kept up to date and filed within the department.

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EXHIBIT A

**GEORGE MASON UNIVERSITY
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INTERNAL AUDITOR DEVELOPMENT RECORD**

Name: _____ Employment Date: _____

Position: _____

Professional Certification(s): _____

Professional Organization Membership(s): _____

Education:

Degree(s)/Year(s)	Major(s)	Institution(s)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Note: Attach courses taken in college and continuing education courses prior to joining
        Internal Audit and Management Services.

TRAINING SINCE JOINING AUDIT DEPARTMENT

Course or Seminar	Sponsoring Organization	Date(s) Attended	CPE Hours	Credits	Cost**	P/I***	
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

*   Individual auditors are responsible for maintaining supporting training records.

**   Including travel, lodging, meals and registration

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***Participant or Instructor

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INTERNAL AUDITOR DEVELOPMENT RECORD

ASSESSMENT OF FUTURE TRAINING NEEDS

Fiscal or Calendar year (for training requirements): _____

Internal Audit Requirements: _____

Future Certification Requirements:

Professional Certification Other	Year (To/From)	Yearly Credits	Two Year Credits	Three Year Credits	
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

Auditor's Request(s): _____
_____
_____

Audit Management's Needs Assessment: _____
_____
_____

PLANNED TRAINING SCHEDULE

Course or Seminar	Sponsoring Organization	Date(s) Scheduled	----------------Estimated---------------		
			Total Hours	CPE Credits	Cost
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

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QUALITY ASSURANCE PROGRAM

INTRODUCTION

The purpose of our quality assurance program is to determine whether:

- Internal Audit and Management Services (IA&MS) fulfills its mission statement and provides value-added service to management;

- Audit work complies with the Institute of Internal Auditors (IIAs) International Standards for the Professional Practice of Internal Auditing, the Code of Ethics, and departmental policies and procedures.

Our quality assurance program consists of four major elements: Supervision of Audits and Projects, Management of Administrative Activities, Internal Assessments, and External Assessments. This section prescribes the policies and procedures for the Internal Assessments at George Mason University.

GENERAL POLICY

IA&MS is committed to providing the highest level of professional audit services to the University. Professional audit services implies serving as a resource to management as well as meeting professional standards.

IA&MS Director is responsible 1) for establishing a periodic Internal Review through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the Standards; and 2) for requesting external assessments, such as quality assurance reviews, to be conducted at least once every five years.

THE INTERNAL REVIEW PROCESS

The Internal Review process will consist of three primary phases: Planning, Fieldwork, and Reporting.

1. Planning:

   a) Timing of the Internal Review: The Internal Review should be completed no later than one year prior to the anticipated start of the external review.

   b) Internal Review Team: The Director is responsible for selecting the members of the internal review team. The Director should document the selection process and ensure

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that the team is properly qualified and staffed.

c) Preparation: The internal review team should meet with the Director prior to the start of the review to discuss review objectives, background information, the project time schedule and budget, and reporting issues.

The team leader is responsible for developing a review program to guide the efforts of the team, utilizing any Quality Assurance Review Manual or Handbook issued by the Institute of Internal Auditors and/or the Association of College and University Auditors.

The team leader is also responsible for all individual assignments and for supervising the conduct of the internal review.

d) Scope Considerations: The scope of the internal review should consider any ongoing internal quality assurance activities. In addition, the following factors should also be considered:

- Size of the Department;

- Degree of involvement the Director of the Department has in each project;

- Formal and informal supervision;

- Other activities, such as annual updates of individual training plans and periodic revisions of the risk assessment and audit plan, that provide assurance that the Department is able to meet the needs of those it serves.

2. Fieldwork:

The fieldwork phase will include reviews of individual audits and an evaluation of value-added activities:

- Reviews of Individual Audits: The review team should select a representative sample of workpapers prepared during the evaluation period for review. The sample should include at least one set of operational and information systems workpapers.

- Evaluation of Value-Added Activities: Auditee Surveys are mailed at the completion of each audit. The review team should review a sample of the returned surveys and discuss the responses and any corrective actions with the Director. The team should be particularly alert for responses that reflect on the nature of services provided by internal audit.

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The team leader should consider other methods to evaluate value-added activities relating to each audit. Examples include: a cost-benefit analysis of an audit or the existence of recommendations that resulted in cost reductions, revenue enhancements, or improved service to customers. Possible approaches to obtaining this information, including the content of additional surveys, should be discussed in advance with the Director.

If additional surveys are used, refer to the section of the manual that relates to audit surveys for information about distribution and return of the survey forms. Results of the surveys will be summarized by audit unit. A copy of the summary will be provided to the Director and appropriate audit manager. The Director should follow up on negative ratings or responses or other responses that vary significantly from the content of other surveys.

3. Reporting:

    The results of the internal review must be communicated in a written report.

    a) Draft Report:

        Following completion of the fieldwork, the team leader is responsible for guiding the preparation of a draft report. The draft should include the background, objectives, scope of the review, significant findings, overall evaluation, and any recommendations for improvement. Copies of the draft report should be distributed to all team members and the Director.

        The exit process for the internal review should follow the same process as established for routine audits.

    b) Final Report:

        The Director is responsible for preparing a written response to the internal review report. The response should address any issues and recommendations, and include the proposed corrective action plan where necessary. The response must be delivered to the team leader no later than one week after the exit conference for inclusion in the final report.

        In the event that areas of disagreement continue after the exit conference, the team leader has the final decision regarding the content of the final report.

        The final report should be signed by the team leader and addressed to the Director. Copies of the report should also be provided to the Senior Vice President and the Audit Committee Chair. The Director and team leader will prepare a cover memo to accompany the final report. Results of the review will also be formally discussed with the audit staff.

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EXTERNAL REVIEWS

IA&MS Director will ensure that External Assessments, such as quality assurance reviews are requested and conducted in accordance with the schedule and criteria prescribed in the Standards.

CONCLUSION

The periodic internal and external reviews prescribed in this section are an integral part of our continuing efforts to monitor, evaluate, and improve the IA&MS Department. All members of the department must be committed to this process and contribute their best efforts to its achievement.

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SUPERVISION

GENERAL

Audit supervision is required to maintain a consistent level of quality in the conduct of all internal audit activities. While individual staff members may have varying backgrounds and experience, Internal Audit and Management Services (IA&MS) work must comply with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards). IA&MS Director and Manager are responsible for ensuring, through various review techniques, that staff members are properly supervised and their work meets the requirements set forth throughout the Standards. In addition, the effect supervision has on the continuing professional development of staff must be considered.

INTERNAL AUDITS AND SPECIAL AUDIT PROJECTS

Supervision is a continuing process beginning with planning and ending with the conclusion of the audit assignment. Audit supervisory personnel are responsible for review of such things as the following:

- Assignment of auditors
- Evidence of planning (e.g., planning memoranda)
- Surveys, flowcharts, ICQ's, and narratives
- Audit programs and audit program modifications
- Results of tests and fieldwork documentation
- Support for findings
- General appearance, organization and conformance to standards for workpapers
- Audit report content and wording
- Auditor objectivity
- Due professional care
- Time budget variances

Approval of each of these items should be evidenced in the workpapers, as appropriate.

AUDIT ASSIGNMENTS

The key to the continued success of IA&MS is the development of its staff. In addition to the responsibilities enumerated above, audit supervisory personnel must develop an appropriate mix of assignments and encourage other forms of professional development. In addition, audit

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assignments must be made to avoid any potential conflicts of interest and bias.

AUDIT FIELDWORK

Audit supervisory personnel must ensure the quality of work to be performed is adequate on an ongoing basis. This can be accomplished through on-site reviews, periodic reviews of workpapers and observation of audit work being performed. Audit supervisory personnel should review audit budgets on a periodic basis to determine if the work appears to be progressing according to schedule.

Audit supervisory personnel should create an atmosphere of professionalism and should impress upon subordinates that by being vigilant during the fieldwork portion of the audit, potential problems can be avoided.

AUDIT REPORT PREPARATION

It is advisable to perform the supervisory review of audit reports while they are in the preliminary draft stage.

AUDITOR EVALUATION

As soon as possible, following the completion of the audit, the Audit Manager or Director should prepare a documented evaluation (Exhibit A) of the Auditor's performance. Strengths and weaknesses should be noted and be supported by specific instances. In this way, the auditor can receive the most objective assessment of his/her work possible, and at the same time focus on specific areas for improvement.

PLANNING AND ADMINISTRATION

Supervision does not end with the audit process itself. All activities of the IA&MS Department are ultimately the responsibility of the Director and, therefore, should be properly supervised. Other areas for which proper supervision is important include:

- Development and/or revisions to the internal audit charter, policies and procedures, position descriptions, and departmental goals and objectives.

- Performance of the risk analysis process and preparation of staffing plans, audit plans, work schedules, financial budgets, and activity reports.

- Planning for auditor training and continuing education programs.

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- Staffing of the department with proficient and qualified individuals.

EXHIBIT A

C O N F I D E N T I A L

**PROJECT PERFORMANCE EVALUATION
FOR AUDIT STAFF**

Internal Audit and Management Services

Name:

Assignment:

No. Staff Supervised: **Project or Audit**:

From: **Total Hours Assigned:**
          (dates assigned)

Describe duties assigned*:*

Evaluated by: _____ **Date:** _____

Directions

This evaluation is to be used to supplement the employee's reviews required by the State of Virginia. This evaluation should be completed within 2 weeks of the substantial completion of a regularly scheduled audit. The evaluation should be completed by the person directly supervising the employee on the particular assignment and approved by the internal audit director or his or her designee.

The evaluation should be discussed with the employee in person, and the employee should sign the evaluation indicating that this has been done and any comments he or she may have.

The completed form should be kept in the employee's file.

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PROJECT PERFORMANCE EVALUATION

D = Distinguished   A = Average   BA = Below Average
S = Superior   U = Unsatisfactory   NR = Not Rated

CRITERIA

I. **Preliminary Work**
Comprehensiveness and efficiency of audit program
Comprehensiveness of audit objectives

D	S	A	BA	U	NR

II. **Field Work**
Findings adequately documented
Required work performed

D	S	A	BA	U	NR

III. **Workpaper Documentation**
Flowcharts (neat, clear, accurate)
Adequacy of documentation

D	S	A	BA	U	NR

IV. **Report Writing**
Ability to present and sell ideas
Writing style (clarity, conciseness, organization)
Identification of significant issues

D	S	A	BA	U	NR

V. **Supervision**
Coordination and leadership
Review of workpapers
Control of audit hours

D	S	A	BA	U	NR

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VI. **Other Evaluation Criteria**

	D	S	A	BA	U	NR
Attitude and initiative						
Professional judgment						
Organizational ability						
Problem solving and analytical ability						
Technical knowledge						
Oral communication (clarity, ease, conciseness)						
Relationship with co-workers, superiors, and auditees						
Effective use of time (within budget)						

Comments:_____

_____

_____

_____

_____

_____

Signature of Rater _____ Date _____

Evaluation Approved by _____ Date _____

Signature of Staff member being reviewed _____

Comments of Staff member being reviewed _____

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RISK ASSESSMENT

The Institute of Internal Auditors (IIA) Performance Standard 2010, specifies that the Chief Audit Executive should determine the priorities of the internal audit activity consistent with the organization's goals, and based on a risk assessment with input from senior management and the board.

The State Comptroller also recognizes the importance of identifying and managing risks in the <u>Commonwealth's Accounting Policies and Procedures Manual</u> (CAPP) Section No. 10300. In the CAPP, the Comptroller defines risk assessment as "The process of determining the relative potential for loss/misuse of an assessable unit's resources, due to inadequate control techniques and/or environment factors. The results of the risk assessment are used to mitigate inherent risks." The CAPP, Section No. 10305, goes on to state that agencies and institutions are responsible for "...performing a risk assessment to determine the vulnerability of each assessable unit . . . to problems such as waste, loss, unauthorized use, or misappropriation of resources." In connection with this process, the agency or institution should identify any weaknesses or high risk areas and develop corrective actions. Annually, the agency or institution is required to provide a statement to the State Comptroller with its annual financial statements regarding the status of the agency internal control program. As such, a risk assessment or risk analysis is management's responsibility and an integral component of the organization's internal control structure.

The internal auditor's risk assessment process is also a vital component in adding value and improving an organization's operations.

<u>NATURE OF RISK</u>

The IIA defines risk as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Some of the factors of risk can involve:

- An erroneous decision from using incorrect, untimely, incomplete, or otherwise unreliable information.

- Erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss and exposure.

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- Failure to adequately safeguard assets.

- Negative publicity, and damage to the organization's reputation.

- Failure to adhere to organizational policies, plans, and procedures, or not complying with relevant laws and regulations.

- Acquiring resources uneconomically or using them inefficiently or ineffectively.

- Failure to accomplish established objectives and goals for operations or programs.

IDENTIFICATION OF AUDITABLE ACTIVITIES

The first phase of the risk assessment process is to identify and catalog the auditable activities. Auditable activities consist of those subjects, which are capable of being defined and evaluated. Auditable activities may include:

- Systems such as personnel, purchasing, payroll, payments, etc.

- Programs such as direct student loans, American Express card system, etc.

- General ledger accounts

- Major contracts

- Laws and regulations

- Policies, procedures and practices

- Capital projects, etc.

RISK FACTORS

Risk factors are "...the criteria used to identify the relative significance of, and likelihood that, conditions and/or events may occur that could adversely affect the organization." Risk factors may include:

- Asset size, liquidity, or transaction volume.

- Impact of service delays.

- Impact of inaccurate information.

- Confidentiality of information.

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- Control environment.

- Changes in operations.

- Complexity of operations.

- Impact of adverse publicity.

- Level of processing sophistication.

The Director of Internal Audit and Management Services (IA&MS) should use those risk factors that he/she believes will result in a comprehensive risk assessment. Also, to the extent practical, the number of risk factors should be limited to make the process efficient and economical. In addition, the Director may decide to weigh the risk factors to signify their relative significance. The weighing of risk factors is intended to reflect the Director's judgment about the relative impact a factor may have on selecting an activity for audit.

In conducting the risk assessment, a variety of sources of information should be used. Among them are:

- Discussions with members of management and the board, if appropriate.

- Discussions among the management and staff of Internal Audit and Management Services.

- Discussions with the external auditor.

- Consideration of applicable laws and regulations.

- Analysis of financial and operating data.

- Review of prior audits.

- Review of economic trends.

There are several automated risk assessment packages commercially available to assist internal auditors with this process. Our department utilizes selected portions of the automated Risk Analysis Model that was made available by the Department of the State Internal Auditor (DSIA) several years ago to assist agency and institution audit departments in conducting risk assessments. (See department file for complete copy.) In addition, the risk assessment will be

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updated for each area audited, once the audit has been completed as part of the wrap-up phase of the audit. If during an audit, or any time additional assessable units are identified, a risk assessment will be completed on these units and the audit universe will be updated.

Selected portions of the DSIA Risk Analysis Model used by this IA&MS Department include the following:

- Risk analysis questionnaire

- Risk calculation worksheet

- Score justification worksheet

The IS risk analysis questionnaire and calculation worksheet from the DSIA model are also available for use at the discretion of the Director and the Integrated Auditor.

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INTERNAL AND EXTERNAL AUDIT COORDINATION

The Institute of Internal Auditors (IIA) Performance Standard 2050, specifies that the Chief Audit Executive should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

INTRODUCTION

Internal auditors should conduct their examinations in a manner that allows for maximum efficiency and coordination with independent outside auditors--in the Commonwealth this is principally the Auditor of Public Accounts. When the two groups interact effectively, they can complement each other's efforts and minimize the possibility of duplicate or overlapping work.

The Director of Internal Audit & Management Services (IA&MS) is responsible for coordinating work of the internal and independent outside auditors.

BACKGROUND

The scope and objectives of the work of internal and independent outside auditors differ. Internal auditors are an integral part of management's control system. The scope of their work includes both financial and operational objectives and activities. Independent outside auditors represent the users of financial statements. The scope of their work focuses on the fairness and objectivity of an organization's financial statements.

In spite of these differences, the auditing activities of the two groups can overlap unnecessarily if not coordinated. Key elements to coordination are effective communication and adequate under-standing of each other's work. This is best accomplished through discussions of planned audit activities and reasonable access to each other's workpapers.

Coordination of audit efforts involves:

• Periodic meetings to discuss matters of mutual interest;

• Access to each other's audit programs and workpapers;

• Exchange of audit reports and management letters; and

• Mutual understanding of each other's audit techniques, methods, and terminology.

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AUDITOR OF PUBLIC ACCOUNTS

GENERAL

The Office of the Auditor of Public Accounts (APA) is the legislative audit agency for the Commonwealth for Virginia. The APA performs annual audits for executive and judicial branch units of government, including the University. The APA statutory responsibilities and authority are codified in Sections 30-133 through Section 30-138 of the Code of Virginia. It shall be the policy of this department to coordinate our efforts with the APA to increase our collective knowledge of University operations, ensure appropriate audit coverage within the limits of the resources provided, eliminate duplication of audit effort, and increase the value of the resulting audits and reports.

LONG-TERM PLANNING

As part of the risk assessment and annual update processes, the Director should meet with the respective APA counterparts responsible for the University audit. The purpose of these meetings will be to identify and discuss the long-term plans of APA and Internal Audit, including major changes in scope, areas of emphasis, audit approach, state or federal audit requirements, etc. The Director is then responsible for incorporating those factors into the risk assessment and audit work plans performed by IA&MS.

INDIVIDUAL AUDITS OR PROJECTS

During the planning for each audit or project, the auditor should communicate with APA to determine the extent of APA work performed or contemplated in that area. The APA efforts should be considered in establishing the nature and scope of internal audit work to be performed. Our collective audit efforts should be coordinated to the extent practical, based upon the objectives of the internal audit reviews.

OTHER

During the course of the APA audits, the Director should maintain frequent contact with the APA counterparts to monitor the progress of the audit, identify significant issues early in the process so the issues can be effectively resolved, and lend assistance to facilitate completion of the audit.

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The Director is responsible for meeting with the APA to remain current in developments affecting the two offices, to advise APA of significant modifications to our plans or audits, and to improve the communication and coordination between the APA and IA&MS.
Finally, it is the policy of this department to make our work available to the APA auditors. Those arrangements should be coordinated through the audit director, and the work papers reviewed at the Internal Audit Offices. No records, including work papers, may be removed from the IA&MS Office without the prior approval of the Director. Copies of work papers can be made available to APA upon request.

FRAUDS OR IRREGULARITIES

Section 30-138 of the Code requires that agencies report forthwith certain fraudulent transactions to the APA and the State Police. The audit director is responsible for coordinating our efforts with the Campus Police, and for ensuring that formal notification is made to APA and the State Police at the appropriate time.

STATE POLICE

Under Section 30-138 of the Code of Virginia, state organizations must notify the State Police and the Auditor of Public Accounts when a "reasonable possibility" exists that "a fraudulent transaction has occurred involving funds or property under the control of" the organization if an officer or employee is involved. The Bureau of Criminal Investigation (BCI) is the State Police unit to be notified.

The State Police have developed a standard form (SP-225) to notify them of potential fraudulent transactions. (See Exhibit A) The Agency Head is responsible for notifying the State Police of these potential frauds. Investigations can be performed by the Campus Police or the Internal Audit staff, separately or jointly. If IA&MS performs the investigation, copy of the completed SP-225 should be included in the work papers and the original forwarded to the Senior Vice President's office.

IA&MS Director will discuss with the State Police the results of our internal investigation, if deemed necessary. The BCI will examine the information noted on Form SP-225 and evaluate the extent of any further investigation or prosecution that may be needed.

If, at the discretion of the IA&MS Director or the Campus Police Chief, immediate action by the State Police is needed, a request for assistance may be made prior to or at any point during the investigation.

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IA&MS staff is reminded to refer to Section 20 of this Manual for discussion of investigative procedures for potential fraud investigations.

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SP-225   12-1-93   **EXHIBIT A**

DEPARTMENT OF STATE POLICE
CRIMINAL REFERRAL FORM

Date:

Agency: George Mason University   Telephone: (703) 993-3090

Person
Submitting Report: Dr. Maurice Scherrens, Senior Vice President

Address: George Mason University
           4400 University Drive, MSN 3B2
           Fairfax, VA 22030

Telephone Number: (703) 993-8750

Victim agency if different from submitting agency:

Select the most appropriate violation(s):

( )Misappropriation of Funds   ( )Check Fraud
( )Theft of State Property   ( )Procurement Violations
( )False Reports   ( )_____
( )Bribery/Gratuity   ( )_____
( )Credit Card Fraud   ( )Other (explain) _____

Brief Explanation:

Estimated Loss to the Commonwealth:

Person suspected of violation:

Relationship to the Agency:

( )Officer   ( )Director   ( )No connection
( )Employee   ( )Agent   ( )Other

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DEPARTMENT OF STATE POLICE
CRIMINAL REFERRAL FORM (Cont'd)

Has suspected individual made admissions?
    If so, to whom?

Who discovered the violation and when?   Date:
    Name:

Has violation been reported to another law enforcement agency?
    If so, which agency?

Distribution:

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SCOPE OF INTERNAL AUDIT ACTIVITY

The Institute of Internal Auditors (IIA) Performance Standard 2100, requires that the scope of internal audit work encompass a systematic and disciplined approach towards evaluating and contributing to improve the adequacy and effectiveness of risk management, control, and governance processes in order to provide reasonable assurances that these processes are functioning as intended and will enable the organization's objectives and goals to be met. Internal Audit accomplishes this responsibility by evaluating risk exposures and by evaluating the adequacy and effectiveness of controls regarding the:

- Reliability and integrity of financial and operational information;

- Effectiveness and efficiency of operations;

- Safeguarding of assets;

- Compliance with laws, regulations, and contracts.

Practice Advisory 2100-1 further elaborates that it is Management's responsibility to plan, organize, and direct in such a fashion as to provide reasonable assurance that established objectives and goals will be achieved. Additionally, management should also establish and maintain an organizational culture, including an ethical climate that fosters control.

Control is any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Controls may be *preventive* (to deter undesirable events from occurring), *detective* (to detect and correct undesirable events which have occurred), or *directive* (to cause or encourage a desirable event to occur).

The Internal Audit & Management Services (IA&MS) Department will evaluate and appraise the overall management process in order to provide reasonable assurance that management's:

- Risk management system is effective;

- System of internal control is effective and efficient; and

- Governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining the measures of accountability.

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PERFORMING THE AUDIT

The Institute of Internal Auditors (IIA) Standard 2300, specifies that internal auditors should identify, analyze, evaluate and record sufficient information to achieve the engagement's objectives.

INTRODUCTION

Internal Audit and Management Services (IA&MS) approach to conducting regular audits will vary based on the type of audit objectives and on the auditor's familiarity with the area audited. However, scheduled audits will generally consist of six phases, with supervisory review occurring at appropriate intervals:

- Preliminary Survey

- Review of Work Flows and Internal Control Evaluation

- Fieldwork

- Communicating Results (Reporting)

- Wrap-Up

- Follow-Up

Two or more of these steps may be performed concurrently if the nature of the project allows.

Approximately three to four weeks before an audit is scheduled to begin, an engagement letter/memo will be delivered to the head of the area being audited and copied to the Senior Vice President and other members of management who may be affected by the audit. The engagement letter/memo will notify them of the project and will indicate that an entrance briefing will be conducted prior to the audit. A point of contact and phone number of the audit office will be included.

A phone call by the lead auditor or auditor-in-charge should follow the engagement letter/memo scheduling an entrance meeting in order to begin the exchange of information that will be needed during the audit. For surprise cash counts or potential frauds, it may be necessary to delay this initial contact to preserve the effectiveness of the review.

During the entrance meeting, the auditor should explain the audit process, identify auditee concerns and suggestions for objectives, and generally open the channels of communication that are necessary for a successful project.

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PRELIMINARY SURVEY

During this phase, an auditor becomes familiar with the mission, major activities and risks related to the activities of the area being audited. The auditor uses information obtained during the preliminary survey to develop the focus and objectives for an audit. The goal of a preliminary survey is to identify areas where IA&MS can provide analyses and assistance that will benefit the area audited or the University as a whole.

The nature of the assignment will determine what items should be considered during the preliminary survey. Examples of information that may be reviewed in the preliminary survey are:

- The area's mission, major functions, goals, and objectives.

- Auditee requests or suggestions for items to be included in the audit.

- Flowcharts or narrative descriptions of processes.

- Policies and procedures manuals.

- Physical layout of the area.

- Work performed in the area by the Auditor of Public Accounts, IA&MS, or other review groups.

- Major expenditures and sources of revenue.

- Nature of any independent information systems in the area.

- Laws, regulations, or policies that govern the area.

After reviewing relevant background information and considering the results of this review as a whole, auditor will identify potential objectives that provide a value-added service to the University. The auditor, manager, and/or director will meet to agree on final objectives before these are proposed to the auditee. Budgets and time-frames for the audit can also be discussed. The results of the preliminary survey should be documented in accordance with the workpaper standards established for the department.

REVIEW OF WORK FLOWS AND INTERNAL CONTROLS EVALUATIONS

An extensive study analyzing controls and process flows relative to audit objectives is one feature that distinguishes internal and external auditing. Internal auditors perform this function to determine whether the activity's process flows and controls are adequate (i.e., its design

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incorporates the checks, balances, and procedures needed to ensure that management's objectives are carried out).

This department's study of controls and processes will generally include identifying the purpose of an activity and how it works; considering potential risks (what can go wrong); using professional judgment to determine what is needed to protect against those risks; and assessing whether necessary control features are included in the activity. In addition, auditors should be alert for weak, unnecessary, or duplicated steps, inefficient operations, and compensating controls that offset a weak or missing step. As part of the review, auditors should trace sample transactions or activities through the process to ensure that they understand how it works and have considered all major steps.

At the end of this phase of the audit, auditors should draw a preliminary conclusion as to whether the process, as designed, is adequate. In addition, an audit program should be developed that will be used to test whether identified strengths actually operate as described, or to explore the effect of any material weakness noted during the initial stages of the audit. Budgets and time-frames for the audit should also be discussed and approved for any changes and/or revisions to the original estimates.

In unusual cases, an analysis of the system of internal controls will not be necessary. This situation occurs when the preliminary survey shows that policies and procedures in an area are so weak or poorly understood that little benefit would be gained from studying or analyzing controls. In these cases, the workpapers should explain why the control review was omitted. Depending on the circumstances, auditor may also choose to omit fieldwork and proceed with the process of communicating the results of the audit.

FIELDWORK

During fieldwork, auditors carry out the audit program developed for the area under review. At the end of a test, auditors should reach conclusions about whether identified strengths are working as intended and should assess the possible impact of weak or missing controls.

After testing begins, auditors may find that a planned step cannot be completed or is unnecessary or that the results of tests may also demonstrate the need for additional steps. This situation may occur when a test yields results that vary significantly from expectations based on the control review or when records are unavailable for testing. In this case, auditor should update the audit program (after approval from Audit Manager/Director) to ensure that it contains appropriate steps and procedures.

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Auditor should examine sufficient, competent, relevant, and useful information (as defined in the Standards) to carry out testing and other evaluations. Documentation of fieldwork will vary but should be sufficient to demonstrate what work was performed, without oral explanations, and should support the issues/findings, recommendations, and conclusions contained in the work papers or audit report. Refer to Work paper Documentation section for additional information.

COMMUNICATING RESULTS

Auditor should keep management informed of how the audit is progressing and discuss possible findings as these are identified throughout the audit. This practice helps ensure that the results of an audit are accurate. It promotes a "team approach" by actively involving management in developing solutions to issues identified by the audit. Early discussion of possible findings also allows management to promptly begin any corrective action that is needed.

After fieldwork for a scheduled audit is complete, a written audit report will be prepared and issued using the department's standard format. This report will include an overall opinion and provide details about any significant issues, or findings, identified in the audit. Findings should be presented by identifying the issue and, the corrective action to be taken should be developed with management's assistance. Other, less significant issues/findings will be presented to management, in a written formatted management letter. Findings of still lesser significance will be addressed orally with management.

Until the final version of the report is complete and ready to be issued to the Audit Committee members of the Board of Visitors and the President of the University, all copies of reports that are released should be marked "Draft." Management of the area audited should be allowed to review a draft of the report and meet with Internal Audit to discuss it.

Reports for scheduled audits shall be signed by the IA&MS Director. Copies will also be issued to members of management who are in a position to take corrective action or ensure that any necessary changes are made.

WRAP-UP

This phase involves most of the administrative activities associated with an audit. Procedures that should occur as the audit is wrapping-up include:

- Doing an overall review of the workpapers to see that all procedures are complete, workpapers are signed-off, and Internal Audit's workpaper standards have been met.
- Comparing actual to budgeted hours and completion dates and providing explanations for any

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material variances.

- Reviewing the most recent risk assessment for the audit unit and determining if the unit's risk score needs to be updated.

- Preparing a summary of audit effort worksheet to allocate audit hours among the general Scope of Work standards.

- Backing-up all microcomputer files and preparing the diskettes for archival filing.

- Reviewing the result of the auditee survey.

- Binding the work papers and submitting them for filing.

FOLLOW-UP

IA&MS will follow-up to ascertain that appropriate action is taken on reported audit issues/ findings. Follow-up by internal auditors is defined as a process by which they determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit findings. Such follow-up may also include relevant findings made by external auditors and others.

Scheduling of follow-up should be based on the risk and exposure involved, as well as the degree of difficulty and the significance of timing in implementing corrective action. The nature, timing, and extent of follow-up will be determined by the Director, to be completed usually within one year of issuing the final report or shortly after the furthest completion date for management's action plans has occurred.

Auditors will determine what corrective action was taken and if it is achieving the desired results, or if senior management or the board has assumed the risk of not taking corrective action on reported findings.

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AUDIT WORKPAPERS

The Institute of Internal Auditors (IIA) Performance Standard 2330, specifies that internal auditors should record relevant information to support the conclusions and engagement results.

GENERAL

Audit workpapers are the connecting link between field work and the audit report. They serve as the systematic record of work performed and shall contain sufficient, competent, and relevant evidence to support the auditor's findings, opinions, conclusions, judgments, and recommendations in the audit report. The increasing interest and attention given to auditors' reports make it mandatory that audit findings be adequately supported by evidence in the auditor's workpapers. This evidence is necessary to demonstrate how the conclusions were arrived at and to provide the basis for determining whether the conclusions are reasonable and correct. Good workpapers are evidence of properly planned, well organized, and effectively controlled audits.

The preparation and review of audit work papers will conform to the IIA Standards. Professional Guidance is provided as follows:

1. Audit work papers should be prepared by the auditor and reviewed by management of the internal audit activity. Work papers should reflect the information obtained and the analyses made, to:

   • Provide the principal support for the engagement communications,

   • Aid in the planning, performance, and review of audits,

   • Document whether the audit objectives were achieved,

   • Facilitate third-party reviews,

   • Provide a basis for evaluating the internal audit activity's quality program,

   • Provide support in circumstances such as insurance claims, fraud cases, and lawsuits,

   • Aid in the professional development of the internal auditing staff.

2. The organization, design, and content of audit workpapers will depend on the nature of the engagement. Work papers should, however, document the following aspects of the audit process:

   • Planning

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- The examination and evaluation of the adequacy and effectiveness of the system of internal controls.

- The procedures performed, information obtained, and the conclusions reached.

- Review

- Communication

- Follow-up

3. Audit work papers may be in the form of paper, tapes, disks, diskettes, films, or other media, and may include:

- Planning documents and audit programs,

- Control questionnaires, flowcharts, checklists, and narratives,

- Notes and memoranda resulting from interviews,

- Organizational data, such as organization charts and job descriptions,

- Copies of important contracts and agreements,

- Information about operating and financial policies,

- Results of control evaluations,

- Letters of confirmation and representation,

- Analysis and tests of transactions, processes, and account balances,

- Results of analytical auditing procedures,

- Audit's final communications and management's responses,

- Audit correspondence if it documents audit conclusions reached.

4. Typically, each audit work paper prepared should conform to the following:

- Identify the audit and describe the contents or purpose of the work paper,

- Be signed (or initialed) and dated by the auditor performing the work,

- Contain an index or schedule number,

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- Audit verification symbols (tick marks) should be explained,

- Sources of data should be clearly identified.

EVIDENCE

Evidence may be categorized as physical, documentary, testimonial, and analytical. Descriptions of the categories are as follows:

1. Physical evidence is obtained by direct inspection or observation of (a) activities of people, (b) property, or (c) events. Such evidence may be documented in the form of memoranda summarizing the matters inspected or observed, photographs, charts, maps, or actual samples.

2. Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance.

3. Testimonial evidence is obtained from others through statements received in response to inquiries or through interviews. Statements important to the audit should be corroborated when possible with additional evidence. Testimonial evidence also needs to be evaluated from the standpoint of whether the individual may be biased or only have partial knowledge about the area.

4. Analytical evidence includes computations, comparisons, reasoning, and separation of information into components.

The evidence obtained by an auditor should meet the basic tests of sufficiency, relevance, and competence. To meet these tests, the following guidelines are provided:

1. Sufficiency is the presence of enough factual and convincing evidence to support the auditors' findings, conclusions, and any recommendations. Determining the sufficiency of evidence requires judgment. When appropriate, statistical methods may be used to establish efficiency.

2. Relevance refers to the relationship of evidence to its use. The information used to prove or disprove an issue is relevant if it has a logical, sensible relationship to that issue. Information that does not have a logical, sensible relationship to the issue is irrelevant and therefore should not be included as evidence.

3. Competence means that the evidence should be valid and reliable. In evaluating the competence of evidence, the auditors should carefully consider whether reasons exist to doubt

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its validity or completeness. If so, the auditors should obtain additional evidence.

PLANNING AND UNIFORMITY

Well-planned and organized work papers are necessary to achieve a professional quality audit. Work papers are more than just a record of the work performed. Their use in controlling the audit operation and in arriving at sound conclusions is an auditing technique in itself. Before preparing any work papers, the auditor should have a clear concept of the primary purpose of the work paper and any subordinate purposes.

Work papers that are uniform in design and arrangement facilitate the reviewer's job. However, the primary consideration is how the audit is conducted, and efforts to achieve uniformity are secondary. All relevant work papers prepared during an audit should be retained and included in the files. Work papers developed using the computer should be printed for ease of review and included in the audit work paper binder, or maintained on computer disks for retention with the work paper files.

Even though auditing in a particular area may be discontinued after a few audit steps, the reasons for discontinuance should be recorded in the work papers. If an issue/finding is dropped prior to the issuance of the final report, the reasons for the action should be documented. This is often a matter that may require discussion with and resolution by supervisory personnel. The rationale for the decision should be documented in the audit work papers to enable reviewers to track the disposition of tentative audit findings.

AUDIT PREPARATION

The work paper binder for regular operational audits will be set up for each audit in a logical sequence in accordance with the following file structure developed by this department:

1. Planning

   a. Planning Memorandum

   b. Engagement Letter

   c. Entrance Conference Memo

2. Preliminary Survey

   a. Survey Checklist

   b. Other Pertinent Background Information

3. Review of Work Flows and Internal Controls Evaluation

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a. Flow Chart

b. Test of Transactions

c. ICQ

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4. Fieldwork

   a. Program

   b. Test

5. Communicating Results

   a. Potential Audit Comment (PAC) Form Index

   b. PAC's

   c. Discussion Draft Report

   d. Draft PAC Management Letter

   e. Discussion Notes

   f. Exit Conference Memo

   g. Draft Report

   h. Management Responses

   i. Final Report

   j. Final PAC Management Letter

   k. Report Distribution Form

6. Wrap-Up

   a. Actual to Budgeted

   b. Summary of Audit Efforts

   c. Notes

   d. Supervisor's Approval Sheet

   e. Customer Survey Result

7. Follow-Up

   a. Follow Up Engagement Memo

   b. Management's Response

   c. Audit Program

   d. Support/Testing

   e. Follow Up Closing Memo

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     f.   Miscellaneous

All work papers and issues/findings will be reviewed by the Audit Manager/Director. This review will be documented by initialing and dating the work papers. All issues/findings must be identified on the lead sheets and cross-referenced to the supporting schedules and the supporting schedule should reflect the cross-reference to the issue/finding on the lead sheet.

Some alterations to the above noted file structure may be evident for Administrative Compliance and IS audits. However, sections 1, 5, 6 and 7 re: Planning, Communicating, Results, Wrap-Up and Follow-up will be standard and consistent with these types of audit also.

PRINCIPLES OF DOCUMENTATION

Work papers should be sufficiently documented so as to be understood by readers having some knowledge of the subject and to lead a reviewer to the same conclusion the auditor reached without requiring supplementary oral explanations. Work paper information should be clear and complete, yet concise. Knowledgeable individuals using the workpapers should be able to readily determine their purpose, the nature and scope of the audit work, and the preparer's conclusions. Good work papers also permit another auditor to pick up the examination at a certain point (for example, at the completion of the survey phase) and carry it to conclusion.

Certain basic information applies to most work papers or series of work papers. When the information is common to a series of work papers, it need only be recorded on the first paper of the series and referred to in the succeeding work papers. The basic information includes the following:

- Identification of the department, activity or function being audited
- Subject of the work paper
- The 'as of' date for the information and the records used in the analysis
- Name of the preparer/name of reviewer
- Date prepared/date reviewed
- Explanation of any signs, symbols, or acronyms used
- Page number (to include total pages, i.e., Page 2 of 6)
- Attachment number
- Work paper index/schedule number for filing and reference

The purpose, scope/procedures, results and conclusion for each audit test and/or subject review should be summarized in a lead sheet. Issues noted in the Results section should be carried to

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and summarized on the PAC sheet utilizing the condition, criteria, cause, effect, and recommendation format, if preferred. All PAC sheets will be reviewed and evaluated for final disposition for reporting purposes.

Other information that is essential to understand the individual work papers supporting the audit examination is explained below. The following information should be included, whenever applicable, within the purpose, scope, results or conclusion areas:

Source of Information

Where did the auditor obtain the information shown in the work papers? This applies to schedules prepared by the audited activity, as well as to data compiled by the auditor.

Purpose of the Workpaper

What is the reason for preparing this work paper? Clearly stating the purpose of each work paper facilitates review of the papers as well as use by succeeding auditors.

Scope of the Auditor's Examination

What did the auditor's examination include? This is particularly important when determining the volume of the transactions involved; the number examined; what part of the total volume the audit test represents; why these transactions were selected; the period covered by the auditor's review; and what the examination consisted of (for example, comparison of data between different periods, matching data to standards, etc.). When the analysis was based on a sample of transactions, information should be included to describe the sampling plan contained elsewhere in the workpapers. When factors external to the audit organization and the auditor are restricted during the audit, or interfere with the auditor's ability to form objective opinions and conclusions, this should be explained as a scope limitation.

Results

What did the auditor find as a result of each scope step or methodology performed? What were the results? This section documents the end result and reveals what was found resulting from the work performed.

Criteria

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What criteria, standards, policies etc., did the auditor use to support a judgment? Whenever applicable, a reference to the criteria should be included. This can be satisfied by citing applicable documents such as regulations, laws, standards, etc. The criteria may be stated in the scope, results or conclusion area depending on the situation.

Conclusions

What judgment did the auditor reach after analyzing the data? These are the conclusions drawn from analysis and interpretation of the results of the auditor's test and from any related facts. The purpose should be restated based upon the work performed. When the conclusions recorded on one work paper are based in part on information in other workpapers, this fact should be noted and appropriately cross-referenced.

Recommendations

What are the auditor's recommendations, either for further review or for management? During the work performed the auditor may uncover additional areas that may, in his or her opinion, be cause for additional work. For any recommendation made for management a finding would need to be identified within the body of the work paper.

Comments and Viewpoints by Others

What are the comments and viewpoints made by others regarding the auditor's facts and conclusions? This information is needed to place the auditor's conclusion in perspective. The viewpoints and comments of operating personnel or other pertinent matters bearing on the auditor's conclusions should be made a matter of record. For example, the auditor may wish to include an explanation of the causes or extenuating circumstances for any noted deficiencies.

It is not intended that the work paper be a mirror image of the PAC sheet. If the above information is included in the work paper it should facilitate the writing of the PAC.

INDEXING/SCHEDULE NUMBERS

To facilitate review and understandability of workpapers, indexing of the files is essential. The primary purpose of indexing/scheduling is to facilitate the cross-referencing of work papers one to another and to summaries of analyses and reports. A secondary purpose is to indicate the relationship of the work papers to the particular areas or segments of the audit.

The indexing/scheduling system should show the logical grouping of interrelated work papers.

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Appropriate groupings will not only contribute to ease of reference, but will assist the auditor's analysis, interpretation, and summarization of the results of the audit by audit segments, and facilitate supervisory review.

The indexing/scheduling system should be simple and capable of expansion.

CROSS-REFERENCING

No audit should be considered complete until the work paper files are thoroughly and accurately cross-referenced. Cross-referencing at each step in the process is necessary to ensure that all pertinent facts and conclusions have been considered and that support exists for the auditor's position. This decreases the probability of a defective final product - the audit report.

At a minimum, work papers should be cross-referenced to other related papers, the audit program, summaries, PACs, and the draft audit report. A copy of the final audit report, filed with the work papers, should also be cross-referenced.

WORKPAPERS REVIEW

Continuous reviews of audit work papers should be made to ensure that professional audit standards are complied with. This procedure gives the reviewer the opportunity to appraise the quality of the papers, the relationship of the audit to the objectives, and the completeness of the auditor's examination. It also permits the reviewer to assess the auditor's conclusions, determine what additional steps are necessary, and decide whether to expand or cut back the audit coverage.

The depth of the work paper reviews will vary with each level of supervision. Reviews by the audit manager should be accomplished frequently during the audit and should be more detailed than those made by the Director. The audit manager, at a minimum, should ensure that standards for work paper preparation are met and that there is adequate support for the auditor's conclusions and recommendations.

The auditor should be informed of the results of the work paper reviews. After the auditor has considered the reviewer's notes, he or she should revise the work papers and perform additional work if needed.

In establishing internal quality assurance review programs, audit work papers shall be subject to review on a selective basis by quality assurance review groups. The primary purpose of these reviews should be to ensure that audit issues/findings are adequately documented and that work

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papers meet professional standards. Normally, this review will be conducted by external audit agencies.

OWNERSHIP, CUSTODY, AND RETENTION

Work papers are the property of the agency or institution. They should generally be in the custody of Internal Audit and Management Services and accessible only to authorized individuals.

The Director may give members of management or the independent outside auditors access to work papers. This type of access is necessary to substantiate audit findings, to allow management to use audit's work for other business purposes, and to permit coordination of audit efforts with outside auditors.   Releasing audit work papers to any other outside organizations should require the approval of senior management and/or legal counsel, as appropriate.

The Director should develop retention requirements for work papers that are in keeping with the agency's guidelines or any other State requirements. The retention period for audit work papers has been developed in conjunction with the State Librarian. At a minimum, a set of work papers should be retained until the next audit of the particular area is complete or five years, whichever is longer.

AUTOMATED WORKPAPERS

The introduction of microcomputers has increased audit efficiency and effectiveness through the use of electronic spreadsheets, data retrieval, word processing and flowcharting packages. However, at the same time, the use of automated work papers has created new problems relating to control, retention security, and review. Standards for using automated work papers are as follows:

•   Standard naming conventions should be utilized for files to ensure easy accessibility of information to those authorized to use it. File names should be printed on any audit generated electronic document retained in the work papers.

•   When using electronic spreadsheets, the programming found within the cells of a spreadsheet can be as important as the figures displayed. Work papers must document the formulas used as well as the final results. Likewise, the extract commands used to build a report from a database must be documented for demonstrating the underlying validity of the end results.

•   Supervisory review raises complications for automated work papers. Supervisors reviewing work papers on the microcomputer, rather than printed hard copies, may be tempted to make changes to the electronic work papers themselves. Whereas changes to printed work

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papers leave a trail or indication of change, which is easy to observe (e.g., line-throughs), changes made to electronic work papers leave no trail. Changes to electronic work papers by a reviewer should not be allowed. The recommended procedure is to copy work papers, or reports, under a new file name and the reviewer's changes made to the file copy.

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EXHIBIT A
PLANNING MEMORANDUM

1. Resources Necessary to Complete the Audit:
   a. Estimated Audit Hours
       Planning/Audit Survey   _____
       Review of Internal Controls   _____
       Audit Fieldwork   _____
       Supervision and Review *(10% of total hours)* _____
       Audit Report Preparation/Exit Conferences _____
       Accounting/Wrap-up   _____

             Total Hours   =============

Explain any significant budget changes from original audit plan hours.

   b. Other Resources Needed (Financial, IS, Training, Technical Manuals, etc.):

Location:	Contact:
AUDIT STAFF ASSIGNED	**ESTIMATED COMPLETION DATES**
In Charge _____	Entrance Conference _____
Assistants _____	Actual Audit Start Date
_____	_____
_____	_____
_____	Audit Survey _____
Technical _____	Review of Controls _____
_____	Fieldwork _____
	Draft Report _____
	Final Report _____
	Audit Plan Hours _____
Audit Scope	

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ENTRANCE CONFERENCE MEMO

1. Date:

2. Audit area and period the audit will cover: _____
    _____
    _____
    _____

3. Estimated Audit Dates: Beginning _____
                             Ending_____

4. Staff members assigned (include years of experience):
    _____
    _____
    _____
    _____
    _____
    _____

5. Objectives of the audit and areas to be covered:
    _____
    _____
    _____
    _____
    _____
    _____

6. Detail any required agency assistance:
    _____
    _____
    _____
    _____
    _____
    _____

7. Working Conditions: _____
    _____
    _____
    _____

8. Any matters management would like us to address: _____
    _____
    _____
    _____
    _____

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_____
_____

9. Information or other requests by management:_____

_____
_____
_____
_____
_____
_____

10. Audit contact person:_____

11. Members of Internal Audit present:

   Director: _____

   Manager: _____

   Supervisor: _____

   Senior: _____

12. Members of the entity present: _____

_____
_____
_____
_____
_____
_____

13. Other items discussed: _____

_____
_____

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SURVEY CHECKLIST

Audit Procedure	Done By Date
1. Review prior internal audit documentation to determine impact on this review. a. List prior internal audits and special projects performed which relate to the audit area: Obtain copies of applicable summary documentation, which will be useful in completing preliminary survey summary and developing ICQ (e.g., audit reports, memoranda of items of lessor significance, point sheets, preliminary survey summaries, etc.) Workpaper section _____ b. Review audit permanent files and obtain any applicable information. Workpaper section _____ c. Obtain risk assessment documentation for assessable unit(s). Workpaper section _____	
2. Consider contacting other university and college state internal auditors to obtain examples of internal control questionnaires, audit programs, etc. for the audit area. Workpaper section _____	

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Audit Procedure	Done By	Date

3. Consider the impact on the current audit of past, present, and future audit work of external auditors.
 	
   a. Obtain most recent audit management letter comments to identify recommendations requiring follow-up.
 	
       Workpaper section _____
 	
   b. Interview applicable external auditors to determine the extent of work for the audit area recently performed or planned in the near future.
 	
       Person(s) interviewed:
 	
       Was work performed in area which we may be able to rely upon?   Yes ___   No ___
 	
       Workpaper section _____		

4. Review and extract pertinent information from the Board minutes.
 	
   Workpaper section _____
 	
   Were any concerns or problem areas noted within Board Minutes? Yes ___   No ___
 	
   If yes, list below.		

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Audit Procedure	Done By	Date

5. Per inquiry of agency personnel, identify any internal studies or reviews performed by the organization being audited, policy department, or senior management regarding the areas under review. List studies below.
 	
  Agency personnel solicited to identify studies and reviews:
 	
  Obtain copies of applicable studies or reviews
 	
  Workpaper section _____		

6. Per inquiry of agency personnel, identify any external studies or reviews performed regarding the organization being audited (e.g., Secretary of Finance, external consultants, JLARC, etc.)
List below.
 	
  Agency personnel solicited to identify studies or reviews:
 	
  Obtain copies of applicable studies or reviews.
 	
  Workpaper section _____		

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Audit Procedure	Done By	Date
7. Review information provided by the department to other departments regarding the audit area. List below. Agency personnel solicited to identify possible information: Obtain copies of applicable information. Workpaper section _____		
8. Review audit and auditee library materials to identify developments and practices in the "industry." List applicable articles, etc. below. Workpaper section _____		
9. Identify and obtain relevant agency-wide policies and procedures specifically related to the audit area. List below. Workpaper section _____		

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Audit Procedure	Done By	Date
10. Identify and obtain copies of all applicable laws and regulations relating to the audit activities under review. Agency personnel solicited to identify laws and regulations: **Workpaper Section** a. Code of Virginia. _____ b. The Appropriations Act. _____ c. Executive Orders and Memoranda. _____ d. Commonwealth's Directives. _____ e. The Commonwealth Accounting Policies and Procedures (CAPP) Manual. _____ f. State Library Retention Guidelines. _____ g. Federal laws and regulations. _____ h. Applicable FASB or GASB pronouncements. _____ i. Other _____		
11. Identify and obtain relevant auditee policies, procedures, flowcharts and standardized forms (including any recent changes). Workpaper section _____		

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Audit Procedure	Done By	Date
12. Obtain information regarding mission statements and goals and objectives. Workpaper section _____ List goals and objectives below which may have an impact on the current audit.		
13. Determine and obtain general background information about the audit area. a. Obtain organization chart(s). Workpaper section _____ b. Obtain position descriptions and/or performance standards for each position. Workpaper section _____ c. Based on the position descriptions, prepare a listing of <u>major</u> activities, duties, or functions performed by the area. Workpaper section _____ d. Determine the extent and frequency of overtime hours and pay required (if any) to meet routine and non-routine duties. Personnel solicited to identify overtime information: Is overtime required? Yes ____ No ____ If yes, why and how much? Workpaper section _____		

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Audit Procedure	Done By	Date
14. Identify financial information about the audit area. Person(s) solicited and financial documentation reviewed to identify financial information: Determine and obtain information (including transaction codes, etc.) regarding the following financial operations if applicable: a. Cash or other receipting activities. b. Cash or other disbursement activities (including revenue refunds). c. Operating costs and expenditures specific to the audit area (i.e., including personnel and general expenses). d. Income from revenue producing activities. e. Types, amounts, and locations of liquid assets (including petty cash, change funds, and investments). f. Budget proposals and legislative appropriations. g. Federal grants, etc. h. Financial contracts, procurement activities, etc. I. Borrowing authority. Workpaper section _____		

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Audit Procedure	Done By	Date
15. Identify and obtain relevant auditee operating statements (statistical reports) and operating standards for financial transactions or other non-financial activities. List below. Workpaper section _____ Determine and obtain information regrading types, volumes and frequencies of financial transactions and other activities.		
16. Perform appropriate analytical review procedures on key statistics and financial information. Workpaper section _____ Based on reviews, do any variances need to be further analyzed? Yes ___ No ___ If yes, list below.		

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Audit Procedure	Done By	Date
17. Identify and obtain information regarding the extent and type of IS systems and applications used. For each system or application identified, determine: - the primary purpose; - the type (e.g., mainframe, microcomputer); - the main users (i.e., who has access); and - the main product(s) (e.g., output report). Workpaper section _____ List the significant systems below.		
18. Document major changes in management, information systems, and department operations.		

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Audit Procedure	Done By	Date
19. Conduct on-site observations to support information gained relative to the operations of the activity. During these observations, review for signs of waste and ineffectiveness including: - Idle personnel. - Backlogs of work. - Excess inventory and equipment. - Outdated work methods and machines (e.g., lack of data processing capabilities). - Poor working conditions (e.g., space utilization, clutter, neatness, etc.). Were inefficiencies noted? Yes ___ No ___ If yes, describe below.		

20. Prepare a survey summary to include the following information:
a. A summary of the major activities performed in the audit area. Include information related to financial transactions and IS systems. For each activity identified, determine whether the activity will be within the scope of the current audit. For activities, not within current scope, determine whether the activity will be covered in other audits, future audits, or less significant activities.
 	
b. Audit scope and objectives to include:
  i.   Scope of audit.
  ii.   Primary internal control objectives to be covered (Standards 2110 Risk Management, 2120 Control & 2130 Governance – as applicable.)
  iii. Specific audit objectives.
  iv. Audit period.
  v.   External limitations.
 	
c. Documentation to be reviewed to develop ICQ's
 	
d. Problem areas or concerns, which need follow-up procedures.
 	
Note: The summary should be filed in front of detailed workpapers.		

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POTENTIAL AUDIT COMMENT (PAC) FORM INDEX

PAC FORM	SUMMARY OF AUDIT COMMENT	FINAL DISPOSITION

POTENTIAL AUDIT COMMENT (PAC) FORM

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W/P Reference(s): _____

Observed Situation:

Compensating Controls: Yes ___ **W/P References** _____ **No** _____

Results of Interviews with University Personnel:

Discussed with (name and date): _____

    Management Agrees with Comment?   Yes ___ **No** ___ **(Explain)**

Disposition: Report ____ **Management Letter** ____ **Discussion only** ____ **Other** ____
    Explain:

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EXIT CONFERENCE MEMO

1. Audit Title: _____
    Audit #: _____

2. Date: _____

3. Attended by: _____
    _____
    _____
    _____
    _____

4. Topics of discussion:_____
    _____
    _____
    _____
    _____

5. Management comments related to the audit:_____
    _____
    _____
    _____
    _____

6. Points of non-concurrence: _____
    _____
    _____
    _____
    _____

7. Items or issues that require follow-up action by audit staff:
    _____
    _____
    _____

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REPORT DISTRIBUTION FORM

Number
Of
Copies

Board or Audit Committee Members/Other:

_____   __7___

_____

_____   _____

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_____   _____

Executive Management:

Dr. A. Merten (copy to Dr. M. Scherrens)_____   __1__

_

Senior Management:

_____   _____

_____   _____

Auditees:

_____   _____

_____   _____

_____   _____

Internal Audit:

Workpapers   __1___

Audit Reports File   __1___

Extra Bound Copy for Workpapers   __1___

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Others (External Auditors, etc.):

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Date(s) Audit Report Distributed: _____

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ACTUAL TO BUDGETED HOURS

BUDGETED HOURS	ACTUAL HOURS	VARIANCE (%)
Planning/Audit Survey _____	_____	_____
Review of I/C _____	_____	_____
Audit Fieldwork _____	_____	_____
Subtotal:		
Supervision/Review _____	_____	_____
Reporting/Exit Conf _____	_____	_____
Wrap-Up _____	_____	_____
TOTAL HOURS:		

Explanation of Budget Variances:

_____

_____

_____

_____

_____

_____

_____

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INTERNAL AUDIT & MANAGEMENT SERVICES

SUMMARY OF AUDIT EFFORT

	Hours	Percentage
Reliability and Integrity of Information	_____	_____
Compliance with Plans, Policies, Procedures, Laws, and Regulations	_____	_____
Safeguarding of Assets	_____	_____
Economic and Efficient Use of Resources	_____	_____
Accomplishment of Established Objectives and Goals for Operations or Programs	_____	_____
TOTAL	=========	=========

Note: The above statistics are based on subjective judgment of auditors and audit management and includes only PS, IC, and FW hours.

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NOTES

Notes to Future Audits:

_____
_____
_____
_____
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_____
_____
_____
_____
_____

Updates Made to
Risk Assessment Memo:

_____
_____
_____
_____
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_____

Updates Made to
Perm Files Memo:

_____
_____
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SUPERVISOR'S APPROVAL SHEET

1. I have supervised the performance of our audit of the Hemlock Overlook for the period of _____ to _____. This audit was performed according to our audit plan.

2. Under my direction, audit work and responsibilities were assigned to individuals based on their level of experience. I have reviewed the workpapers, including audit programs and questionnaires, and the audit report thereon.

3. There were no issues unresolved.

4. Based on my review, it is my opinion that the workpapers, including the programs and questionnaires, were adequately prepared and the conclusions reached are adequately documented in compliance with the guidelines promulgated by the Internal Audit Manual Standards for the Professional Practice of Internal Audit.

_____   _____

Audit Manager   Date

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FLOWCHARTING

GENERAL

In gaining an understanding of a system and documenting it, the auditor has several alternatives from which to select. In reasonably complex systems, the most cost-effective method may be flowcharting.

Flowcharting is a technique whereby a system is depicted (through a series of symbols and flow lines) in a step-by-step fashion. Utilizing this technique, entire systems or specific procedures can be documented and analyzed. A flowchart is valuable to the auditor in that:

- The flow of documents can be understood;

- The sequence of operations can be understood;

- Controls or the lack thereof can be readily identified;

- The information presented is concise;

- Inputs, processing routines, and outputs are more clearly understood; and

- Supervisory review is facilitated.

The auditor should consider the needs of the audit when determining the complexity of the flowchart. They should also consider utilizing flowcharts that may be available from the auditee. Flowcharts should be made as simple and as general as possible, considering the objectives of the evaluation. For example, a clerk might perform several operations on one document, all of a verification nature. In many instances, one symbol depicting verification might be preferable to a series of detailed explanations or the use of multiple symbols.

During the review of workflows and internal control evaluation phase of the audit, overview flowcharts should be prepared. These flowcharts include inputs and allow the preparer to gain a general understanding of the system.

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FLOWCHART GUIDELINES

The following guidelines should be used in the development of flowcharts:

1.   The general flow of data on the chart is from left to right, top to bottom;

2.   Flow direction arrows must be used on all lines;

3.   Standard flowcharting symbols should be used;

4.   The symbols used should be the smallest size possible to provide for a compact layout. This helps the reader take in the maximum amount of the flow in a glance;

5.   The wording used within the symbols and in the narration should meet the needs of the readers. Names should be brief and used consistently to identify the same thing;

6.   Detailed explanation of the items on the flowchart should be narrated and summarized separately; and

7.   Multiple reports, tapes, disks, etc., are displayed together, in a stacked fashion rather than individually. This keeps the flowchart compact and improves flow representation.

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THE AUDIT REPORT

The Institute of Internal Auditors (IIA) Performance Standard 2400, specifies that engagement results should be communicated and should include the engagement's objectives and scope, as well as applicable conclusions, recommendations, and action plans; and, where appropriate should include the auditor's overall opinion.

GENERAL

An audit is only as successful as the quality of the audit report. Unfortunately, a good audit which is ineffectively communicated will, in the final analysis, not serve the purpose for which it was intended. Since audit reports are often senior management's and the audit committee's primary contact with Internal Audit and Management Services (IA&MS), it is essential that audit reports be clearly written, easily understood, and able to motivate the auditee to take action.

The internal audit reports should "tell a story" and, like the workpapers, be able to stand on their own. A significant degree of detail orientation on the part of the reader should not be assumed.

STRUCTURE OF AN AUDIT REPORT

A typical audit report will contain the following:

- Background information;

- Purpose statement;

- Scope statement;

- Internal control statement;

- Results of audit, including audit issues/findings and action to be taken/recommendations;

- Conclusion and/or opinion statements;

- Signature of Director;

- Date audit report is issued.

Each of these components is briefly described as follows:

(1) Background Information -- The general nature of the function or system under audit should be described. The reason for the audit can be discussed (e.g., scheduled audit, special request, etc.). In addition, the status of management's actions on prior audit report findings,

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recommendations, and conclusions may be included in this section.

(2) <u>Purpose Statement</u> -- The purpose statement should describe objectives of the audit and should be simply and clearly stated. . . . where necessary, [the auditor may want to] inform the reader why the audit was conducted and what it was expected to achieve.

(3) <u>Scope Statement</u> -- The scope statement should identify the audited activities and include, where appropriate, supportive information such as time period reviewed. The nature and extent of work performed should be described and related activities not reviewed should be identified if necessary.

(4) <u>Internal Control Statement</u> -- The internal control statement should identify what the internal control process is and the responsibilities of management and other personnel.

(5) <u>Results of the Audit</u> -- Results should include issues/findings/observations, action plans/ recommendations, and conclusions.

   a. <u>Issues/findings/observations</u> are statements of fact. They bridge the gap for the auditor between "what should be" and "what is." With these differences, the auditor has a foundation from which to build the audit report. The Standards state that findings should be based on the following attributes:

   - Criteria: The standards, measures, or expectations used in making an evaluation and/or verification (what should exist).

   - Condition: The factual evidence which the internal auditor found in the course of the examination (what does exist).

   - Cause: The reason for the difference between the expected and actual conditions (why the difference exists).

   - Effect: The risk or exposure the auditee organization and/or others encounter because the condition is not the same as the criteria (the impact of the difference). In determining the degree of risk or exposure, internal auditors should also consider the effect their audit findings may have on the organization's financial statements.

   b. <u>Action plans/recommendations</u> are the auditor's input to management and call for action to correct existing conditions or improve operations. The normal process is for the auditor and auditee to collectively determine how to adequately correct a noted deficiency. Once an agreement is reached, the report will include the "Action to be Taken," and will also identify a "Contact Person" and "Target Date for Completion." Recommendations are to

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be reported only if management and the auditor cannot come to an agreement on the corrective action or if management wishes to accept the risk of not correcting the deficiency.

(6) Conclusions and/or Opinion Statements – The conclusion and/or the opinion statement is the auditor's evaluation of the effects of issues/findings/observations and recommendations on the activities reviewed. Conclusions may encompass the entire scope of an engagement or specific aspects, including whether the organization's objectives and goals are being met and whether the activity under review is functioning as intended.

(7) Signature -- The audit report should be signed by internal audit management as considered appropriate. The term "signed" means that the Director or authorized internal auditor's name should be manually signed in the report. If audit reports are distributed by electronic means, a signed version of the report should be kept on file. Alternatively, the signature may appear on a cover letter. The internal auditor authorized to sign the report should be designated by the IA&MS Director.

(8) Date Audit Report is Issued -- The date of audit report issuance should be stated.

APPROACH TO WRITING THE AUDIT REPORT

If the audit work papers have been documented properly, a well-organized audit report can be produced with a minimum of difficulty. The following steps are involved in developing a well-organized report:

(1) Outlining -- Considering the elements previously discussed in "Structure of an Audit Report," a key point outline should be developed. It is essential that this outline follows a logical sequence and includes all relevant points. The findings should be ranked in descending order of significance. Organizing the potential audit comment forms in order of significance is the most efficient way to accomplish the outline.

(2) Discussion Draft -- Having ensured in the outlining step that all points have been addressed, a discussion draft which captures the important concepts should be composed.

(3) The discussion draft should provide clarity, eliminate unnecessary words, etc. The text should be reviewed to correct any grammatical errors, typographical errors, and incorrect or missing punctuation. When preparing a draft, the writer should:

-   Eliminate technical terms as much as possible;

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- Vary sentence length;

- Avoid using the same word or term repetitively; and

- Make sure that the report flows in a logical sequence from the reader's point of view.

(4) The finished product will be proofread to ensure that no errors are included in the final report. The auditor should be diligent in this step to ensure that numbers are footed and cross-footed, pages are properly numbered, etc.

The Director/Manager, will review the discussion draft to ensure that terminology is clear and free of unnecessary jargon, and audit issues/findings and recommendations/action to be taken are thoroughly explained, relevant, and significant.

(5) Finally, as mentioned previously, the discussion draft audit report should be as concise as possible.

PRINCIPLES FOR EFFECTIVE AUDIT REPORTS

A properly constructed audit report will be logically structured and convincing in tone. After all, the purpose of the audit report is to motivate management to take effective corrective action. Professional Standard 2420 states that audit communication/report should be accurate, objective, clear, concise, constructive, complete and timely.

(1) Accurate -- free from errors and distortion and faithful to underlying facts.

(2) Objective -- fair, impartial, unbiased and result of fair minded and balanced assessment of relevant facts and circumstances.

(3) Clear -- easily understood and logical; the auditor should avoid unnecessary technical language and provide the reader of the report with sufficient supportive information.

(4) Concise -- to the point and avoiding unnecessary elaboration, superfluous detail, redundancy and wordiness.

(5) Constructive -- helpful to the client/organization and leading to improvements where needed; the content and tone of the presentation should be useful, positive, well-meaning and contributing to the objectives of the organization.

(6) Complete -- including all significant and relevant information, and issues/observations to

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support recommendations and conclusions.

(7) <u>Timely</u> -- since their purpose is to motivate management to take corrective actions on immediate problems, reports should be well timed, opportune and expedient for careful consideration by those who may act on the recommendations; when report issuance is delayed, for one reason or another, the use of interim audit memoranda on key areas of concern should be considered.

REPORT DISTRIBUTION

In determining who should receive copies of the report, the IA&MS Director should ensure that copies of comprehensive reports are sent to individuals in the organization . . . who are in a position to take corrective action or ensure that corrective action is taken. The types of reports issued should be based on the needs of the users, e.g., summary reports for the Audit Committee.

Certain information may not be appropriate for disclosure to all normal report recipients because it is privileged, proprietary, or related to improper or illegal acts. The Director will consider the sensitivity of disclosing this type of information and consult legal counsel before issuing reports that may deal with sensitive information.

REPORT SECURITY

Attention to the security over all audit reports is the responsibility of each internal auditor. Care should be taken to ensure that reports, while in the possession of IA&MS, are stored in a locked file cabinet as directed.

AMENDED AUDIT REPORTS

Professional Standard 2421 describes the steps that should be taken if it is determined that a final audit report contains an error. IA&MS Director will consider the need to issue an amended report, which identifies the information being corrected. The amended audit report should be distributed to all individuals who received the original audit report.

An "error" is defined as an unintentional misstatement or omission of significant information in a final audit report.

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THE AUDIT FOLLOW-UP PROCESS

The Institute of Internal Auditors (IIA) Professional Standard 2500, requires the Chief Audit Executive to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

DEFINITION

Follow-up is defined as a process by which internal auditors determine the adequacy, effectiveness, and timeliness of actions taken by management on reported audit issues/findings/ observations and recommendations/action plans, including those made by external auditors and others.

RESPONSIBILITY

The Director of Internal Audit and Management Services (IA&MS) is responsible for assessing that corrective action has been taken and is achieving the desired results, or that senior management has assumed the risk of not taking corrective action on reported issues/observations.

NATURE, TIMING, AND EXTENT

The nature, timing, and extent of follow-up will be determined by the Director. Factors that IA&MS will consider in determining appropriate follow-up procedures are:

- The significance of the reported issue/observation or recommendation (certain issues may be so significant as to require immediate action by management and may require monitoring, until corrected, because of the effect they may have on the organization).

- The degree of effort and cost needed to correct the reported condition.

- The impacts that may occur should the corrective action fail.

- The complexity of the corrective action

- The time period involved

- There may be instances where management's oral or written response shows that action already taken is sufficient when weighed against the relative importance of the audit issue/observation or recommendation, and in these instances, follow-up may be performed as part of the next audit.

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IA&MS will ascertain that actions taken on audit issues/observations and recommendations remedy the underlying conditions.

SCHEDULING

Follow-up activities will be considered and incorporated as a part of the Department's annual audit plan. As in the case of other auditable activities included in IA&MS' annual audit plan, the inclusion of follow-up activities will be based on the risk and exposure involved and also, the timeframe indicated by management to correct the reported issue/observation and recommendation.

PROCESS

The Director is responsible for establishing a process for following up. In this connection, the following elements will be included as a part of the Department's follow-up process, as appropriate:

- A timeframe within which management's response to the audit issues/observations and recommendation is required.

- An evaluation of management's response.

- A verification of the response.

- A follow-up audit.

- A reporting procedure that identifies unsatisfactory responses/actions, including the assumption of risk, to the appropriate levels of management.

TECHNIQUES

Techniques used to effectively monitor progress include:

- Addressing audit issues/observations and recommendation to the appropriate levels of management responsible for taking corrective action.

- Receiving and evaluating management responses to audit issues/observations and recommendations during the audit or within a reasonable time period after the report is issued.

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- Receiving periodic updates from management in order to evaluate the status of management's efforts at correcting previously reported conditions.

- Receiving and evaluating information from other organizational units assigned responsibility for procedures of a follow-up nature.

- Reporting to senior management or the board on the status of responses to audit issues/observations and recommendations.

CLOSING OUT THE AUDIT

An audit can be considered "complete" when one of the following occurs:

- A "clean" audit report is issued (report contains no adverse findings);

- A report containing deficiencies not warranting a follow-up is issued, and a satisfactory response is received from management;

- A follow-up is conducted with no significant deficiencies noted;

- Management provides a response to an audit that differs from the auditor's viewpoint and the agency head assumes the risk of inaction; or

- Management provides satisfactory cost justification for taking no corrective action.

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INTERNAL AUDIT CUSTOMER SURVEY

In an effort to measure the effectiveness of our audit process and the performance of the department, we utilize Internal Audit and Management Services (IA&MS) Survey at the completion of our audits.

At the entrance conference, comments will be made addressing the survey. After the report is issued, the client should be sent a copy of the audit survey, Exhibit A (so that they may formulate their opinions of the audit process). The responses will be returned to the IA&MS Director. The Director will provide a copy of the survey to the operational audit manager and all those who participated in the audit. A copy of this form will also be sent to the Senior Vice President and the Audit Committee to provide information during their evaluation of the Internal Audit function.

A compilation of the results of the surveys will be used to internally evaluate the audit process, to make necessary changes, and to provide early indications in cases where individual auditors are performing well or having difficulties. These results will also be used in support of the individual auditor's annual evaluation.

EXHIBIT A

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Internal Audit and Management Services
4400 University Drive, MSN 1A2
Fairfax, VA 22030; Phone 993-3090;Fax 993-3095

TO: (Auditee Department Head)

FROM: Internal Audit and Management Services Director

DATE: (Exit Conference Date)

SUBJECT: Audit of (Department Name)

Thank you for the assistance you and your staff provided during our audit of the (Department).

One of our goals for each audit is to make a positive contribution to the operations of the University. To help us evaluate and improve our audit process, please take a few moments to complete and return the attached survey. Space is also provided for any additional comments or suggestions that you might wish to share with us.

If there are issues that you prefer to discuss personally or if you have any questions about the audit, please call me. Thank you for your assistance in our efforts to monitor and improve the internal audit process.

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AUDITEE SURVEY

TITLE OF AUDIT _____   **DATE** _____

Please circle the response that best reflects your rating of the audit services in the following areas:

Evaluation Criteria	Excellent	Good	Fair	Poor
Professional Proficiency				
1. Technical Proficiency of auditors	4	3	2	1
2. Professionalism of auditors	4	3	2	1
3. Communication skills of auditors	4	3	2	1
Performance of Audit Work				
4. Effectiveness of the audit in covering key operating areas	4	3	2	1
5. Notification to you of audit purposes and scope	4	3	2	1
6. Inclusion of your suggestions for audit areas	4	3	2	1
7. Feedback of findings during the audit	4	3	2	1
8. Accuracy of audit findings	4	3	2	1
9. Value of audit recommendations	4	3	2	1
10. Clarity of audit report	4	3	2	1
11. Usefulness of audit	4	3	2	1
12. Duration of the audit	4	3	2	1
13. Timeliness of the audit report	4	3	2	1

14. Was there anything about the audit that you especially liked?
   _____
   _____
   _____

15. Was there anything about the audit that you especially disliked?
   _____
   _____
   _____

16. Additional Comments:
   _____
   _____
   _____
   _____

Auditee Signature _____   Date _____

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THE IA&MS INFORMATION TECHNOLOGY (IT) AUDIT FUNCTION

GENERAL

According to the IT Governance Institute, "effective management of information and related Information Technology" is "critically important to the survival and success of an organization." Further, that "management … must ensure that due diligence is exercised by all individuals involved in the management, use, design, development, maintenance or operation of information systems and must "ensure that an internal control system or framework is in place which supports the business processes, makes it clear how each individual and control activity satisfies the information requirements and impacts the IT resources."

The IA&MS IT audit function provides reviews and audits of the University's IT resources and IT resource governance to help the University satisfy business requirements for effectiveness, efficiency, confidentiality, integrity, availability, compliance and reliability of its information assets.

Because the review and audit of an entity's IT resources often require specialized skill sets and procedures, the IA&MS IT audits are performed in accordance with, not only the IIA Standards, but also the Information Systems Audit and Control Association's (ISACA) Standards and Guidelines for Information Systems Audit and Control Professionals, the ISACA Code of Professional Ethics, and the ISACA Information Systems Control Professional Standards. Additionally, IA&MS IT audits rely on the CobIT framework of control objectives and guidelines (developed by the IT Governance Institute) to augment the IIA framework when applicable.

IT CONTROL OBJECTIVES[1]

An IT internal control structure should be able to prevent, detect, and correct errors, omissions, irregularities, and computer intrusions, and to recover from such activities to ensure continuity of business operations. An IT "system" includes hardware, infrastructure, people, documentation, and associated procedures, whether manual or automated. Key IT control objectives include:

- System assets are safeguarded. An organization's technology assets and resources, such as computer facilities, computer equipment, people, programs, and data, are to be safeguarded at all times to minimize waste and loss.

- System functionality is assured. The computer-based application system supports business needs and the system's requirements for the maintenance of data confidentiality, integrity,

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[1] S. Rao Vallabhaneni, *CISA [Certified Information Systems Auditor] Examination Textbooks, Volume I: Theory*, 3rd ed. (SRV Professional Publications, 2001), pp. 13-14.

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and availability.

- System assurance is provided. The computer system provides confidence to the user/customer of the system as to how well the functionality has been implemented. Assurance is a combination of correctness and effectiveness of the system functions.

- System reliability is assured. The objective is to ensure that the hardware, software, and data are stable and can be trusted to carry out the organization's mission.

- System serviceability is provided. The objective is to correct hardware and software problems in a timely manner to meet service-level guideline.

- System security is assured. An organization's assets and information resources are to be protected from unauthorized access and use.

- Data integrity is maintained. Integrity deals with controls over how data are entered, communicated, processed, stored, and reported. The objective is to ensure that data are authorized, complete, accurate, consistent, and timely.

- System availability is assured. The objective is to ensure that the system and its components are available when they are needed, where they are needed, and for whom they are needed.

- System confidentiality is assured. The objective is to ensure that sensitive data are disclosed only to authorized people.

- System controllability is maintained. Adequate manual and automated controls and procedures regarding hardware, software, data, and people should be available and up to date.

- System auditability is provided. The objective is to develop a chronological record of system activities that is sufficient to enable the reconstruction, review, and examination of the sequence of activities.

- System usability is assured. For example, the application system is appropriately user-friendly, or the system design invites rather than inhibits the authorized user.

- System effectiveness is ensured. For example, system effectiveness is measured by determining that the system performs the intended functions and that users get the information they need, in the right form, and in a timely fashion.

- System economy and efficiency are maintained. An economical and efficient system uses the minimum number of information resources to achieve the output level the system's users require. Economy and efficiency must always be considered in the context of system effectiveness.

- System quality is maintained. This is an overall goal. In addition to the above, the computer system should have built-in quality-related features such as testability, portability,

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scalability, convertibility, modifiability, readability, reliability, reusability, structuredness, consistency, understandability, and above all, adequate documentation.

INTERNAL & EXTERNAL IT ENVIRONMENT

The IA&MS IT audit function monitors emerging IT issues and developments in technology, processes, auditing & controls, & regulatory requirements that could impact the University's IT control system. These include:

• Commonwealth of Virginia Information Technology Resource Management (COV ITRM) Policies, Standards, Guidelines & Alerts

• Publications of the COV Council on Technology Services (COTS)

• Publications of the National Institute of Standards (NIST)

• Federal regulations regarding computer security (Available through the Computer Security Resource Center, CSRC, of NIST.

• Publications of the Systems Administrators, Audit, Network Security (SANS) Institute.

• Internal studies by the GMU Council of Information Technology and other GMU IT initiatives groups.

• Participation in the GMU Departmental Technology Coordinator's group

• Participation in GMU IT development and implementation projects, such as the Banner Security Committee.

• Documents related to IT issues in the Information Technology & Support and Initiatives & Projects folders in the internal Doc-u-share library.

AUDIT PROCESS & IT AUDIT/REVIEW WORKPAPERS

IA&MS Audit processes and workpapers conform to the IA&MS Manual except where specific scope or techniques are not applicable. In those cases, the IT auditor substitutes appropriate processes and techniques in order to meet the audit objectives. Frequently modification of the IA&MS general ICQ workpaper will be required. Flowcharting of processes may need to be replaced by system diagrams.

IT AUDIT SUPPORT FUNCTIONS

Every three to five years, IA&MS conducts a comprehensive review of its auditable entity universe and risk assessment, updating the information. IT auditor provides risk assessment

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coverage of the University's IT resources included in this document.

As the department's representative to the ITU Technological Coordinator's group, the IT auditor functions as the liaison between ITU and the department, conveying information from ITU to the department relative to departmental IT concerns and uses of ITU resources.

Additionally, the IT auditor provides related technical assistance to the entire audit staff, where applicable. This includes:

• Maintaining the generalized audit software configurations and the audit software data library for use by all auditors.

• Performing specialized data retrieval and analysis.

• Providing technical assistance with use of the generalized audit software.

• Acting as liaison between the department and the University's Fixed Asset department regarding the annual equipment inventory.

• Providing assistance related to IT control procedures when applicable to operational auditors encountering IT issues in the scope of their work.

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FRAUDS

GENERAL

Internal Audit and Management Services (IA&MS) investigates allegations of fraud by University employees. It is critical to remember that unless and until corroborating evidence is obtained, allegations are unsubstantiated. There are basically four ways a fraud can be reported to the Department: through the State Employee Fraud, Waste and Abuse Hotline; University Management or Campus Police; GMU Employee Assistance Line; or directly to Internal Audit and Management Services (IA&MS).

All investigations must be conducted in a confidential manner. We must obtain as much information and documentation as possible to provide background information about the charge, department, personnel, and other pertinent facts. We then need to identify possible audit approaches to investigate the allegations, which must be discussed with IA&MS management. Before conducting the investigation, appropriate University management should be notified of the allegations and our investigation. Once our investigation is completed, a report should be sent to the appropriate University management and outside officials.

Fraud investigations are constantly changing based upon the discovery or lack of corroborating evidence. Close and continual coordination and communication with University management is essential to effectively perform these reviews.

The Code of Virginia and Government Auditing Standards require certain outside parties to be notified of our fraud investigations. All communications with outside parties must be documented in the work papers.

Depending upon the nature or outcome of the investigation, audit work papers may be subpoenaed for review by outside parties. All work papers should be clear, concise, and fully support the findings.

Once IA&MS has actually received an allegation, the following steps should be followed:

1. The Director of IA&MS will assign an auditor to conduct the investigation. The auditor will review all available information and documentation without breaching confidentiality to obtain an understanding about the charge, department, and personnel.

2. The auditor will identify possible audit approaches to investigate the allegation and discuss with IA&MS management.

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3. The Director of IA&MS will inform the GMU Police Department of the investigation, if deemed appropriate.

4. If there is a determination of fraud, waste, and/or abuse the Senior Vice President will send the report to the State Police and the State Auditor.

5. The State Police and/or the State Auditors can either pursue the matter themselves, or will refer it back to the University.

6. The GMU Police Department will make a determination on whether to pursue prosecution.

7. The Internal Audit Department will prepare a draft of the investigation.

8. The Legal Affairs Office will review the draft.

9. The final report is sent to the Senior Vice President. If the report contains findings that suggest the need for disciplinary action, a copy will be forwarded to the department and Human Resources & Payroll.

SUMMARY

Fraud investigations are very sensitive. **All information concerning the allegation(s) must be protected and kept confidential.** The legal rights of any party involved must also be protected. Continual and timely communication with University management is **essential** to effectively perform fraud investigations.

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AUDITING FOR FRAUD

DEFINITION

Fraud is defined by Webster's New Collegiate Dictionary as: "deceit, trickery...intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right." Simple errors or mistakes do not constitute fraud. Fraud is characterized by intent to falsely represent or conceal material facts.

State government, as well as the private sector is susceptible to fraud. Agency and institutional management are looking to internal auditors for direction on deterrence and detection of fraud and other illegal activities.

PROFESSIONAL AUDITING STANDARDS

Interpretation of Standard 1210.A2 from the Standards for the Professional Practice of Internal Auditing. The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Nature of this Practice Advisory: Internal auditors should consider the following suggestions in relation to the responsibility for fraud detection. This guidance is not intended to represent all the considerations that may be necessary, but simply a recommended set of items that should be addressed. Compliance with this Practice Advisory is optional.

1. Management and the internal audit activity have differing roles with respect to fraud detection. The normal course of work for the internal audit activity is to provide an independent appraisal, examination, and evaluation of an organization's activities as a service to the organization. The objective of internal auditing in fraud detection is to assist members of the organization in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The engagement objective includes promoting effective control at the reasonable cost.

2. Management has a responsibility to establish and maintain an effective control system at a reasonable cost. To the degree that fraud may be present in activities covered in the normal course of work as defined above, internal auditors have a responsibility to exercise "due professional care" as specifically defined in Standard 1220 with respect to fraud

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detection. Internal auditors should have sufficient knowledge of fraud to identify the indicators that fraud may have been committed, be alert to opportunities that could allow fraud, evaluate the need for additional investigation, and notify the appropriate authorities.

3. A well-designed internal control system should not be conducive to fraud. Tests conducted by auditors, along with reasonable controls established by management, improve the likelihood that any existing fraud indicators will be detected and considered for further investigation.

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THE AUDIT PLAN

DEVELOPING THE AUDIT PLAN

Internal Audit and Management Services (IA&MS) will operate under an approved audit plan. Audit plans will be developed from the results of assessing risks of auditable activities of the University as well as input received from Executive Management, the University's Board of Visitors, and the external auditors. The audit plan will depict areas of audit coverage, estimated resource requirements, and the projected timeframes for conducting audits.

A factor of from 10% to 20% will be built into the audit plan to provide flexibility in addressing special projects and/or investigations. In developing audit-hours for inclusion in the audit plan, the following should be included:

- vacation, holidays and sick leave

- estimated staff turnover

- training time

- administrative time

The Department of the State Internal Auditor had in the past developed automated tools and made them available to Internal Audit Departments to assist in the audit plan development process vis-a-vis its Risk Analysis Model.

It is important that the audit plan be adhered to as much as possible, so that a sufficient depth of audit coverage may be accomplished.

MONITORING ADHERENCE TO THE AUDIT PLAN

Overall adherence to the audit plan is best managed by tracking the components of individual audits in addition to each audit. Each audit should be logically apportioned into audit-hours required for: planning, preliminary survey, internal control evaluation, testing, reporting, supervision and review, project closeout, etc. Individual audits can be more easily managed when variances to budgeted components of the audit are analyzed on a periodic basis.

Detailed time reporting also provides an incentive for auditors to perform efficiently, since there is an awareness that performance is being measured against both expectations and other staff members.

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COMPUTER RESOURCE POLICIES

SECURITY

Auditors should exercise good desktop security procedures. These include individual responsibility for:

*   Complying with the University's Responsible Use of Computing Policy 1301;

*   Adhering to the practice of strong password generation and maintenance;

*   Following the recommendations in the University Security Offices' Microsoft Desktop Users guidelines; and

*   Performing regular maintenance of desktop local hard drives.

Auditors should remember that desktop Windows "passwords" provide no security over any data on the PC, should physical security over the office be compromised. Highly confidential data should be saved directly to removable media (e.g., floppy), because "deletion" of data from hard drives does not erase the file, only the pointer to the file. The data remains accessible on the hardrive until it is written over numerous times.

To provide physical security over the data and computing resources, the locks at the entrances to the office should be secured when the office is unattended. If entrance locks need to be left unlocked, then the individual offices should be locked. Sensitive data on removable storage media and hard copies of sensitive data should be appropriately secured and properly destroyed when disposed of.

BACK-UPS

Auditors are responsible for maintaining backups of their desktop files on separate media. Auditors may wish to back up non-sensitive data to the "audit" folders on the shared drive on the University LAN, relative to the need for security of the files.

E-MAIL

Due to the ease with which e-mail can be read or forwarded, extra care should go into its creation. University e-mail servers retain copies of sent and received mail. Servers are backup up periodically and tapes stored off site. Always consider the ramifications of the e-mail begin read by someone other than the intended recipient.

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Virginia's Record Retention Standards require that e-mail used to replace official correspondence must be maintained just as if it was created on paper. Many IA&MS e-mails contain audit data used in testing and become part of the workpapers. Audit related e-mail should be stored locally on the auditor's hard drive or on removable storage, to avoid exceeding mailbox capacity quotas.

OUTSIDE THE OFFICE

The department has a laptop computer available to the staff. Laptops are inherently susceptible to damage and theft. Therefore, extra caution should be taken to protect them. Laptops should stay in the physical possession of the auditor. A sign out sheet must be filled out before removing the computer from the Department offices. (See Exhibit A for an example.)

ELECTRIC POWER QUALITY

Surge protectors should be used with desktop computers and peripheral equipment. AC adaptors, rather than the internal laptop battery should be used unless there is no power source to plug into.

TRAINING FOR SOFTWARE

If an individual needs training on particular software, they should schedule training in coordination with the Director.

UNAUTHORIZED SOFTWARE USAGE

There may be no unlicensed or personal software installed on Internal Audit and Management Services computers. Only software approved by the Director can be installed on any Department computer. An exception can be obtained from the Director for educational and professional development software.

A computer should have a corresponding software license for all of the software running on it. No illegal copies of software may be made. All files created for Internal Audit and Management Services should only be copied for back up purposes.

SOFTWARE BACKUPS

Before a software package is installed, it should be backed up, with the copies maintained in the IA&MS secured software library.

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AUDIT WRAP-UP

At the end of fieldwork for an audit, the computer files should be backed up to a diskette, which will be stored with the final workpapers.

EXHIBIT A
SIGN-OUT SHEET FOR COMPUTERS

2004		RESERVED	CHECKED OUT		DATE RETURNED
			SIGNATURE	**LOCATION**	
	1				
	2				
	3				
	4				
	5				
	6				
	7				
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AUDIT SOFTWARE

GENERAL

Audit software enables an auditor to readily audit data stored on computer media. Audit software has functions that are similar to query facilities, report writers, utilities, computer languages and other data processing software techniques. The following are principal features of generalized audit software as compared to other auditing techniques:

- Complete files can be read speedily and accurately, resulting in:
    - Examination of all data on file rather than a small sample,
    - The ability to identify data meeting a particular condition, and
    - The ability to quantify the extent of unusual or erroneous data on the file;
- Conventional audit time can be devoted to an examination of items identified as needing audit attention;
- The software can be made flexible, by using parameters that can be altered each time the program is run; and
- Once audit software is set up, running costs on subsequent occasions are reasonable and offer considerable overall time savings.

A generalized audit software package is a software product specifically designed for audit use. It enables the internal auditor to perform varied data processing functions such as reading data from computer files, selecting all or only certain records for processing, performing auditor specified computations, sampling, sorting, summarizing data, and printing reports in the form requested by the internal auditor. A generalized audit software package offers:

- Easy specification of reports;
- Computational functions;
- Selection criteria;
- Sampling based on criteria selected by the auditor and variable from run to run;
- Automatic statistics such as total dollar values and counts both for the total population and for records sorted, selected or computed;
- Sorting of records into a new sequence for report printing or other purposes;
- Creation of summary records at multiple levels; and
- Automated logging of audit procedures.

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IA&MS currently has two licenses for ACL desktop audit software. The IA&MS IT Auditor is responsible for maintaining the ACL configurations and data library for use by all auditors.

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AUDIT FILES

INTRODUCTION

Files provide a systematic means of accumulating and maintaining information. The use of adequate and proper identification when labeling a file allows for easy and rapid access to the information by users of the files.

Only useful information should be maintained in a file. A clutter of uninformative documents merely increases the size of the file, the amount of space used in file storage, and difficulty in locating the desired information.

CURRENT AUDIT FILES

The current audit files should contain the following:

- The most recent audit workpapers;

- All useful correspondence since the last audit; and

- All other information, which may be useful in the current or subsequent audit.

The retention period for stored files will be until the file has been reviewed and/or five years has lapsed, as developed in conjunction with the state archivist.

PERMANENT FILE

In some instances (e.g., Information Technology Unit), it is beneficial to maintain permanent files because of the frequency of audits and reviews. The permanent file should contain information about the auditee's organization, which will be useful for the current audit period as well as the future.