Report on the Results
of the Independent Validation of the
Quality Assessment Review (QAR) for
East Carolina University
Office of Internal Audit and Management Advisory Services
March 2021

Reviewers:

Marion L. Candrea, CIA, CFE – Chief Audit Executive at Ohio University
James Ponce, CPA, CIA, CFE – Associate Vice President, Internal Audit at Wake Forest University

March 23, 2021

Mr. Wayne Poole, MBA, CIA, CISA
Chief Audit Officer
East Carolina University
525 Moye Blvd
Greenville, NC 27834

Dear Mr. Poole,

In accordance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (*Standards),* we have completed the independent external validation of the Self-Assessment Quality Assessment Review (QAR) performed by the Office of Internal Audit and Management Advisory Services (the Office) at East Carolina University. This review is required by the IIA every five years.

The primary objective of the validation was to verify the assertions and conclusions made by the Office concerning adequate fulfillment of the organization's expectations of the department. We also validated the Office's conformity to the *Standards* and *Code of Ethics,* noted successful internal audit practices, and identified opportunities for continuous improvement.

In acting as the qualified, independent external assessors from outside the organization, the undersigned are fully independent of East Carolina University (ECU) and have the necessary skills and expertise to undertake this engagement. The validation consisted primarily of a review and test of the procedures and results of the Office's self-assessment in addition to interviews conducted with the Chancellor, Office of the State Auditor for North Carolina, Chair of the Audit, Enterprise Risk Management, Compliance, and Ethics Committee, and other members of ECU senior leadership.

Overall, we concur with the Office self-assessment results that the ECU Office of Internal Audit and Management Advisory Services **generally conforms to the IIA** *Standards* **and** *Code of Ethics*—the highest rating available. While we did not find any gaps to conformance, we did note some opportunities for improvement that could enhance the efficiency and effectiveness of the Office even further. These are described in this report.

We appreciate the cooperation and courtesies extended to us during our review by the Office and the ECU community. Please do not hesitate to reach out to myself or Mr. Ponce should you have any questions regarding the review.

Warm Regards,

Marion L. Candrea, CIA, CFE
Chief Audit Executive
Internal Audit Office
Ohio University

James Ponce, CPA, CIA, CFE
Associate Vice President
Audit and Compliance Services
Wake Forest University

Table of Contents

EXECUTIVE SUMMARY

An Independent Review Team made up of professionals from Ohio University and Wake Forest University conducted an independent validation of the Quality Assessment Review (QAR) self-assessment of East Carolina University's Office of Internal Audit and Management Advisory Services (the Office). The work was conducted in accordance with the requirements of the *International Standards for the Professional Practice of Internal Auditing* (the *Standards*).

The ECU Office utilized—and the independent review team assessed the organization using—the Institute of Internal Auditors (IIA) Quality Assessment Manual, 2017 Edition. The primary purpose of a Quality Assessment Review is to determine the internal audit function's conformance with the *Standards*.

The ECU Office was determined to **Generally Conform** to IIA *Standards,* which is considered the highest rating available. We noted certain strengths within the Office which we feel compelled to acknowledge:

- **Demonstrated Quality in all Aspects of Audit Process**
- **Senior Management Support and Interaction**
- **Governance and Relationship to Audit Committee Chair**
- **Proactive Outreach, Education, and Training**

Additionally, although we did not find any gaps that would prohibit the Office from conforming to individual standards, we did identify a few opportunities for improvement within the Office:

- **Annual Review of Charters to Audit Committee**
- **Formally Document Consulting Engagement Objectives**
- **Enhanced Awareness on the Risk Assessment Process**
- **Continued Cross-Training and Skill Building of Staff**
- **Consider Future Office Metrics in Consultation with New Leadership**

Each of these opportunities are further enumerated within this report along with the Office's management response.

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CONFORMANCE WITH IIA *STANDARDS*

Generally Conforms means that the Office has a charter, policies and processes that are judged to meet the spirit and intent of the IIA Standards with some potential opportunities for improvement.

Partially Conforms means deficiencies in practice are noted that are judged to deviate from the spirit and intent of IIA Standards, but these deficiencies did not preclude the Office from performing its responsibilities in an acceptable manner.

Does Not Conform means deficiencies in practice are judged to be so significant as to seriously impair or preclude the Office from performing adequately in all or in significant areas of its responsibilities.

Overall, the ECU Office of Internal Audit and Management Advisory Services was judged to *Generally Conform* to IIA Standards. Opportunities to enhance the function exist in several areas but did not preclude the Office from general conformance. Specifically, we concluded the Office:

Generally Conforms to the following IIA Standards:
1000—Purpose, Authority and Responsibility
1100—Independence and Objectivity
1200—Proficiency and Due Professional Care
1300—Quality Assurance and Improvement Program
2000—Managing the Internal Audit Activity
2100—Nature of Work
2200—Engagement Planning
2300—Performing the Engagement
2400—Communicating Results
2500—Monitoring Program
2600—Resolution of Senior Management's Acceptance of Risk

Partially Conforms to the following IIA Standards:
N/A – Generally conformed to all

Appendix A includes a detailed assessment for each specific standard.

BACKGROUND AND SCOPE

Background

East Carolina University (ECU), a four-year public university, provides more than 28,000 students an educational experience that is committed to the mission of being a national model for student success, public service, and regional transformation. The university offers 84 undergraduate degrees, 70 master's degrees, and 18 doctoral degrees, including those in the area of medicine and dentistry. ECU is an institution within the University of North Carolina (UNC) System. Although the Chief Audit Officer at ECU does not have any direct reporting relationship to the UNC System Office, institutional audit department heads hold bi-monthly calls with the UNC System Vice President for Audit and Compliance.

Organizationally, the Office of Internal Audit and Management Advisory Services (the Office) reports functionally to the Board of Trustees (BOT) Audit, Enterprise Risk Management, Compliance, and Ethics Committee and administratively to the Chancellor. The Office consists of eight professionals: The Chief Audit Officer, three Audit Supervisors, three Internal Auditors, and one Program Specialist. The Office also employs one part-time student intern. Between all staff members, the team holds 14 certifications (e.g., CPA, CIA, CISA, CFE) and over 100 years of experience.

Scope

We conducted the validation of the Self-Assessment during the months of February and March 2021. The ECU Office supplied the review team with the materials noted below in December 2020, which we spent time reviewing in January 2021. Because of the pandemic, we virtually conducted what would normally be done on-site between February 15 – 26, 2021, concluding up the assessment in March 2021.

Engagement Methodology

Our procedures included review of the following documents:
- Internal Audit Charter and other background materials regarding ECU and the audit function
- The charter for the BOT Audit, Enterprise Risk Management, Compliance, and Ethics Committee
- QAR advanced preparation materials providing background on the program and practices
- Previously completed QAR reports along with status of the implementation on recommendations
- The annual audit plan and risk assessment process
- Selected internal audit project workpapers and reports
- Staff training histories
- Audit follow-up practices and reporting

The "on-site" procedures[1] included:
- Interview with the current BOT Chair and Vice Chair of the Audit Committee
- Interview with the ECU Chancellor
- Interviews with ECU Senior Management and audit clients
- Interviews with the North Carolina system and State Auditors
- Interviews with ECU Office staff
- Review of workpapers for selected completed projects (both audits and consultations)
- Analysis of the information reviewed and an assessment of compliance with the *Standards*

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[1] Because of the COVID19 pandemic, all procedures were conducted virtually.

STRENGTHS, OPPORTUNITIES FOR IMPROVEMENT, AND MANAGEMENT RESPONSE

Leading Practices

The external validation team concurs with the leading practices identified by the Office's self-assessment. These leading practices were:

- Strong support and relationships with the Board and University management
- Well-documented and intentional strategy and goals for the Internal Audit activity
- Strong use of technology to enhance the effectiveness and efficiency of risk assessment and audit processes

Through our interviews with senior management and external state partners, we specifically acknowledge the Office's collaborative approach to assurance and consultative services. Additionally, we noted the following successful internal audit practices:

➢**Demonstrated Quality in all Aspects of Audit Process**—We interviewed selected ECU personnel that had been audited by the Office. Each audit client we spoke with felt that the Chief Audit Officer and his team added value on the engagement. The level of quality that the team puts into their audits was also evidenced by the meticulous nature of the project work papers within AutoAudit, including evidence of planning, supervision, and methodology.

> *"I trust Wayne, and I value his opinion."*

➢**Senior Management Support and Interaction**—Interviews conducted conveyed a high level of support for the Office from ECU senior management and the Chancellor. The Office is well respected and seen as collaborative; and management feels comfortable seeking their opinion regarding problematic situations. It was a shared sentiment that the Chief Audit Officer is seen as a "Trusted Advisor" at the institution.

➢**Governance and Relationship to Audit Committee Chair**—The Chief Audit Officer reports functionally to the Chairperson of the Audit, Enterprise Risk Management, Compliance, and Ethics Committee. Upon speaking with both the outgoing and incoming Chair, we learned that the Chief Audit Officer has direct access and an open line of communication with the Chair. The incoming Chair commented that he felt the Chief Audit Officer and his team always seemed to be ahead of emerging risks and "leading the way."

➢**Proactive Outreach, Education, and Training—**Review of supporting documentation identified that the Office proactively provides education and awareness on the internal audit function throughout the institution. For example, on an annual basis, the Chief Audit Officer sends an email to all departmental Chairs or Directors to let them know about the role of, and services provided by, the Office. This demonstrates the Office's commitment to being a valued partner at the institution.

> *"Wayne is approachable and reasonable. He is reasonable in his approach to find [a solution] that works for all parties. He has the respect of people around campus."*

Opportunities for Improvement with the Office

Annual Review of Charters to Audit Committee *(identified in self-assessment)*
(Standard 1000 – Purpose, Authority, and Responsibility; Standard 2060 – Reporting to Senior Management and the Board)

The Office's self-assessment correctly observed that while the charters of both the internal audit function and the audit committee are reviewed each year internally, these charters are only provided to the Board of Trustees Audit Committee when the applicable document needs to be updated. We concur with the action plan set forth by the Chief Audit Officer in the self-assessment that the Audit Committee topic tracking list has been updated to reflect annual review of the charters.

Management Response: N/A – Plan of Action included in the Office self-assessment report.

Formally Document Consulting Engagement Objectives *(identified in self-assessment)*
(Standard 2201 – Planning Considerations)

The Office's self-assessment correctly observed that there were some instances where objectives, scope, and expectations of consulting engagements were discussed with management but not memorialized formally in a planning document. One interview reflected that confusion did exist on a prior engagement in terms of roles and responsibilities based on expertise. We concur with the action plan set forth by the Chief Audit Officer in the self-assessment that the Timeline of Events template used on all engagements has been updated to allow for clear documentation of objectives on both consulting and investigative projects.

Management Response: N/A – Plan of Action included in the Office self-assessment report.

Enhanced Awareness on the Risk Assessment Process
(Standard 2010 – Planning)

The Office performs an annual risk assessment that relies upon a variety of factors including, but not limited to, information from the AutoAudit Risk Module, IT risk assessments, discussions with senior management, and the results of the University's Enterprise Risk Management (ERM) process. During our interviews with senior leadership, it was noted that some members of management considered ERM to be the main, if not only, driver of the risk assessment process providing input into the annual audit plan. We recommend the Office provide a brief overview/reminder of the risk assessment process during individual meetings with senior leaders to further provide clarity around how risks are identified, ranked, prioritized, and included or not included on the annual audit plan.

Management Response: The Chief Audit Officer agrees and appreciates this recommendation. We are currently in the middle of the annual risk assessment and audit planning process for fiscal year 2022. We will incorporate more education and awareness of our entire process in our conversations with senior management and other stakeholders. These conversations will occur in April-May 2021.

Continue Cross-Training and Skill Building of Staff
(Standard 1210 – Proficiency)

The Office makes a concerted effort to diversify staff skill sets to meet the needs of the institution and the trends of internal audit. For example, the Chief Audit Officer developed internal strategies and goals that outline areas of needed growth within the department and assigns projects as such to further develop individuals. This is considered best practice and will assist in long-term sustainability of services the Office can provide given internal expertise. We did note, however, that there is heavy reliance on one individual within the department for data analytics expertise. Given the growing importance of data analytics within the field of internal audit, we recommend that the Chief Audit Officer continue building this skill set across every individual in the Office.

> **Management Response:** The Chief Audit Officer agrees and appreciates this recommendation. We will be very intentional about building depth among the audit team in the area of data analytics. Specific steps are yet to be determined and may involve specifically earmarking funds and/or training hours in the next fiscal year for the purpose of formally building proficiency with the data analytics tools.

Consider Future Office Metrics in Consultation with New Leadership
(Standard 2060 – Reporting to Senior Management and the Board)

ECU's Board of Trustees measures the success of the internal audit function on established key performance indicators (KPI), which are updated and presented at each meeting of the Audit Committee. While some of this information is not only requested by the Board but also a requirement of the *Standards* (e.g., progress against the annual audit plan), it may be beneficial for the Chief Audit Officer to establish new or revised metrics with the new Chancellor that the incumbent may be interested in seeing to measure how the internal audit function is adding value.

> **Management Response:** The Chief Audit Officer agrees and appreciates this recommendation. The CAO will work with the new Chancellor, the Audit Committee, and the Internal Audit team to determine metrics that are appropriate for measuring the value added by Internal Audit. If possible, the new metrics will be in place by July 1, 2021.

APPENDICES:

Appendix A – Evaluation Summary: Quality Assessment
(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

		GC	PC	DNC
OVERALL EVALUATION		✓		
ATTRIBUTE STANDARDS				
1000	**Purpose, Authority, and Responsibility**	✓		
1010	Recognition of the Definition of Internal Auditing	✓		
1100	**Independence and Objectivity**	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board	✓		
1120	Individual Objectivity	✓		
1130	Impairments to Independence or Objectivity	✓		
1200	**Proficiency and Due Professional Care**	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	**Quality Assurance and Improvement Program**	✓		
1310	Rqmts of the Quality Assurance and Improvement Pgrm	✓		
1311	Internal Assessments	✓		
1312	External Assessments	✓		
1320	Reporting on the Quality Assurance & Improvement Program	✓		
1321	Use of "Conforms with the *International Standards"*	✓		
1322	Disclosure of Nonconformance	✓		
PERFORMANCE STANDARDS				
2000	**Managing the Internal Audit Activity**	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination	✓		
2060	Reporting to Senior Management and the Board	✓		

		GC	PC	DNC
2100	**Nature of Work**	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	**Engagement Planning**	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	**Performing the Engagement**	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of "Conducted in conformance with the Standards"	✓		
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Management's Acceptance of Risks	✓		
IIA Code of Ethics		✓		