

Reported to the Board of Trustees
September 11, 2014



UNIVERSITY OF ILLINOIS
URBANA-CHAMPAIGN • CHICAGO • SPRINGFIELD

OFFICE OF UNIVERSITY AUDITS

Annual Report
For the Year Ended June 30, 2014

For Presentation to the University of Illinois Board of Trustees

September 2014

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President Easter and
The University of Illinois Board of Trustees

On behalf of the Office of University Audits (Office), I am pleased to present our Annual Report (Report) for the Year Ended June 30, 2014. Within this Report we intend to demonstrate our accountability to you that the internal audit function is operating as intended.

The mission of our Office is to protect and improve the University and its related organizations through independent, objective assurance and consulting services. We assist all levels of management in the achievement of University goals and objectives by striving to have a positive impact on the efficiency and effectiveness of the University's operations. We appreciate the input of many individuals in our development of our audit plan, including the President, Vice Presidents, Chancellors, Vice Chancellors, Deans, and many others. Additionally, we responded to special requests throughout the year. Highlights of the year include:

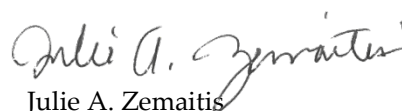
- Delivery of over 21,000 hours of service.
- Issuance of 70 audit, investigation, and consulting project reports.
- Validation of the implementation of nearly 300 improvements.
- Recalibration of risk / priority rating criteria to more closely mirror the risk appetite of the University.
- Receipt of the highest level of assurance rating from an external quality assurance review for our conformance to Institute of Internal Auditors Professional Standards and Code of Ethics and compliance with the Fiscal Control and Internal Auditing Act.

Based on the program of work completed during fiscal year 2014, we submit the following representations:

- All audits were performed in conformance with The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.
- The Audit Plan and each individual audit were risk-driven.
- There is transparency in all reports issued; all significant findings were reported.
- We received cooperation from management in all audits conducted.

The Office's accomplishments would not have been possible without the dedication and professionalism of the employees in the Office, and I thank them for their efforts. I also would like to thank the officers and staff of the University for their cooperation and responsiveness. Finally, I thank you for your continued support of our Office.

Sincerely,



Julie A. Zemaitis
Executive Director of University Audits

Use of Audit Resources During Fiscal Year 2014

The Office's strategic intent is to operate in a manner that adds value within the University, focuses on the differing primary stakeholders' expectations and priorities, and adapts to changes in technology, legislation, and organizational strategic priorities.

As with all University organizations, resources are finite and must be applied judiciously to ensure the maximum contribution and benefit possible toward achieving the University's vision and objectives.

Following are summaries of how our Office utilized audit resources during fiscal year 2014.

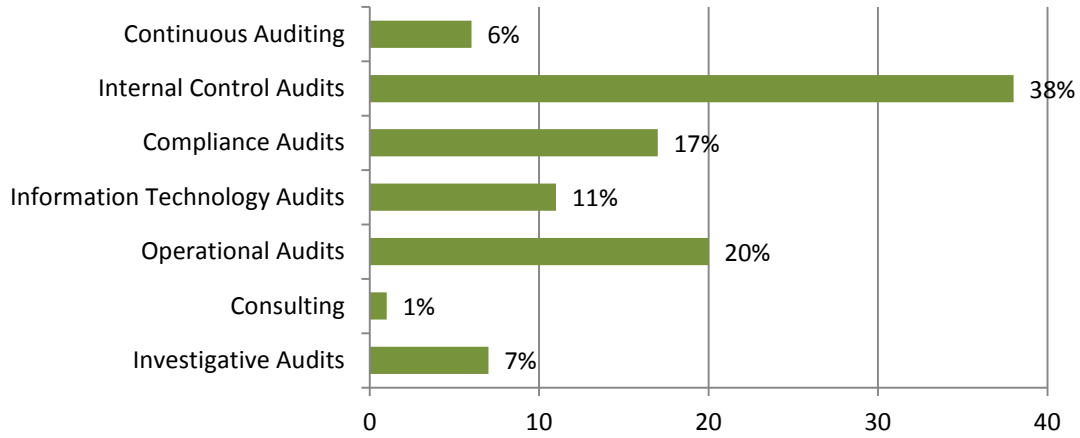
FISCAL YEAR 2014 AUDIT PLAN COMPLETION STATUS

	NUMBER OF AUDITS			
	Completed	In-Progress	Deferred to FY15 Plan	Withdrawn – Lower Risk
Planned Audits	60	17	3	7
Audits Added During the Year	15	1	0	0
TOTAL	75	18	3	7

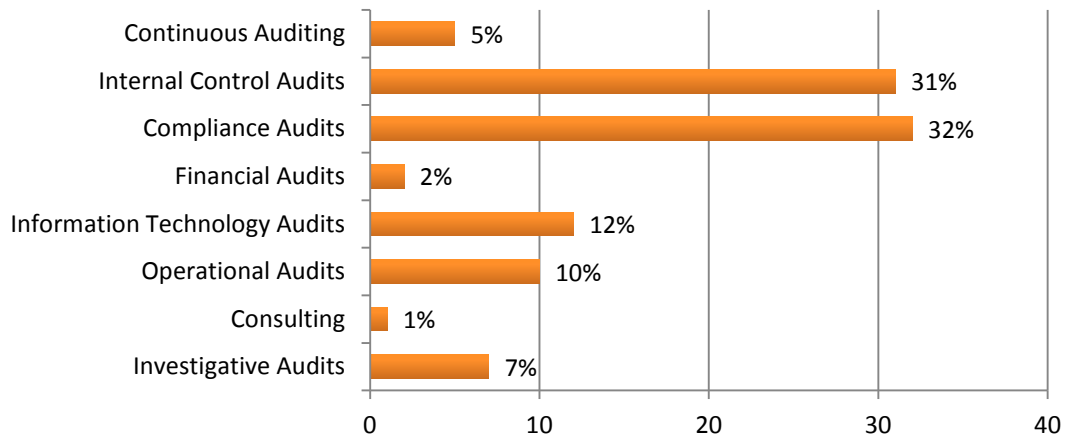
	HOURS		
	Planned	Actual	Variance
Planned Audits	17,280	16,224	(1,056)
Special Projects / Investigations	3,000	3,663	663
Follow-up	1,470	1,867	367
TOTAL	21,750	21,754	4

DIRECT AUDIT HOURS BY TYPE OF PROJECT

Fiscal Year 2014



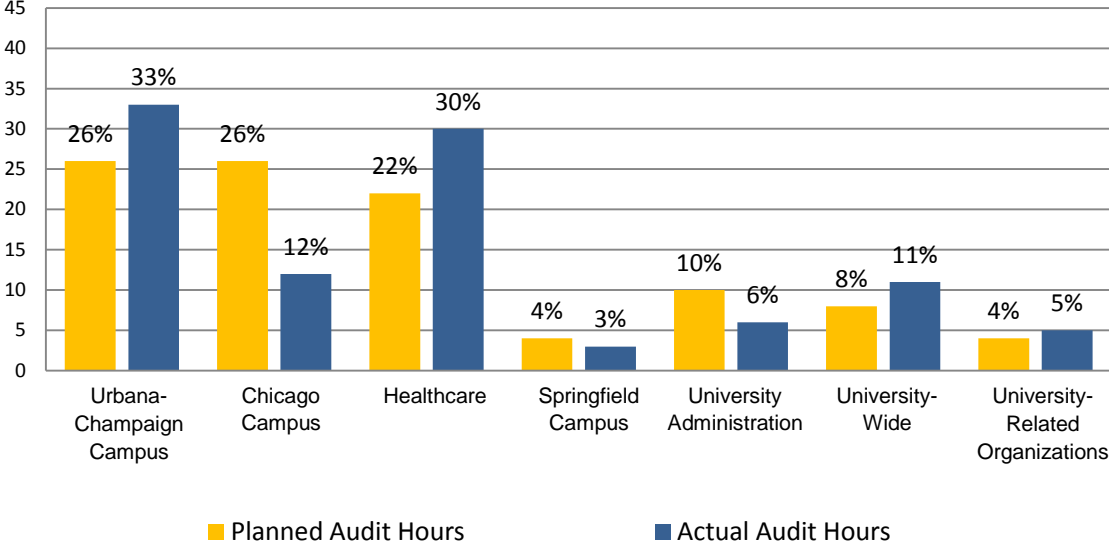
Fiscal Year 2013



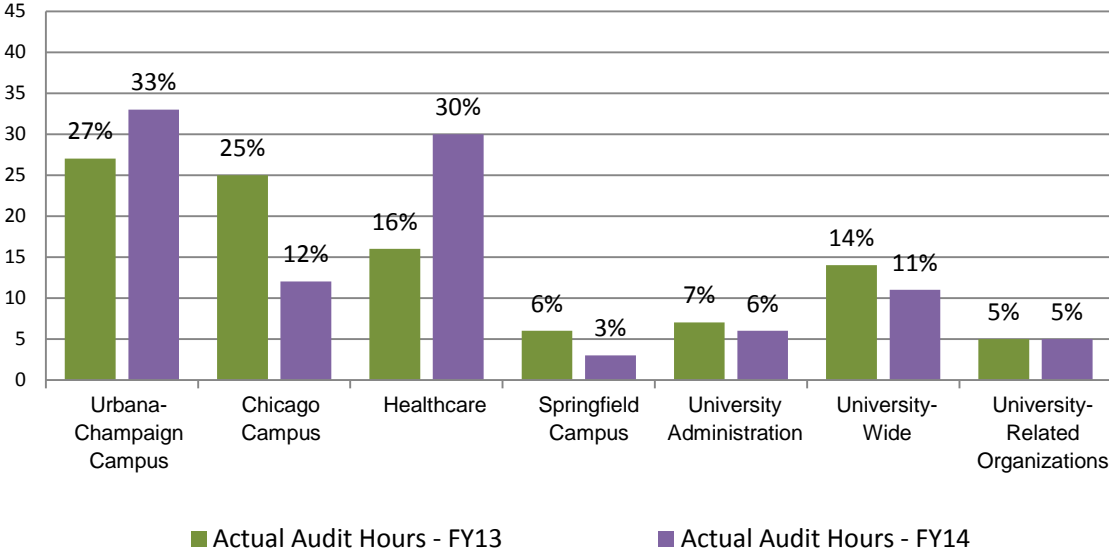
Appendix B provides a summary of completed projects, along with a definition of audit project types.

DIRECT AUDIT HOURS BY CAMPUS / AREA

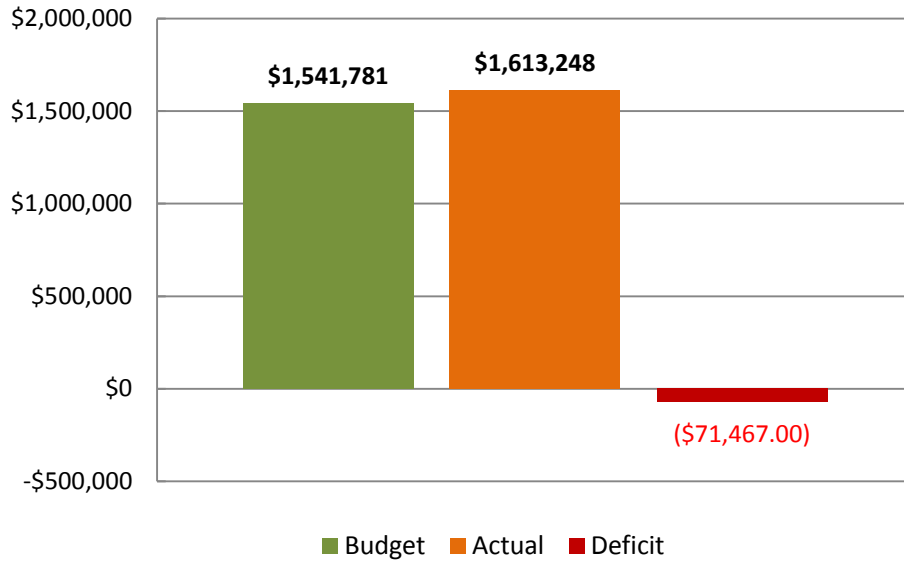
Fiscal Year 2014



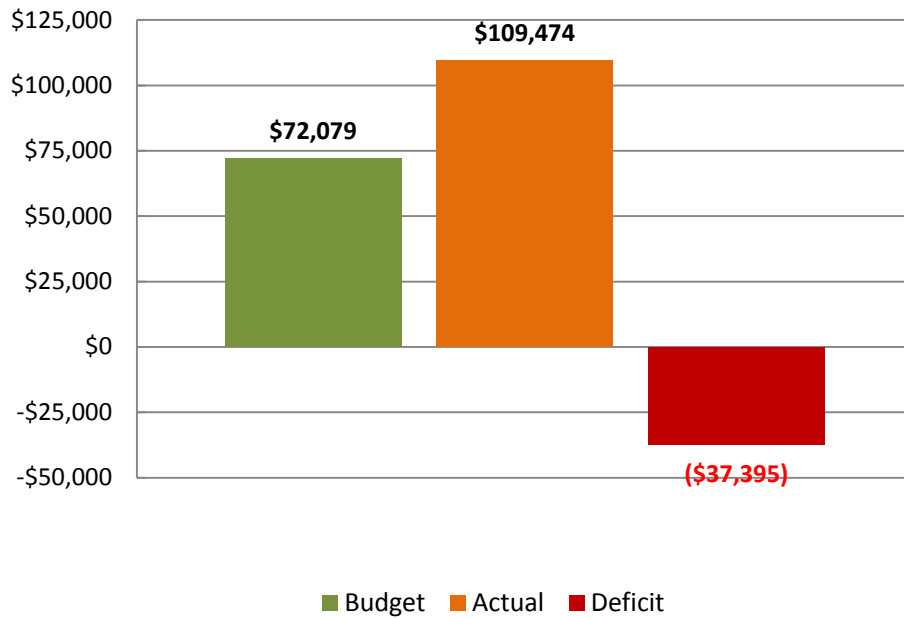
Fiscal Year 2013 and Fiscal Year 2014



Fiscal Year 2014 Personnel Expenditures

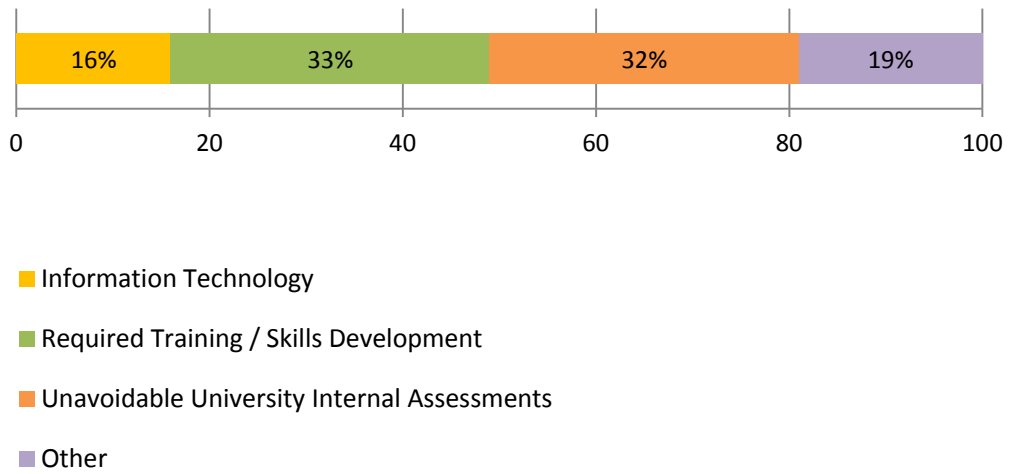


Fiscal Year 2014 Non-Personnel Expenditures

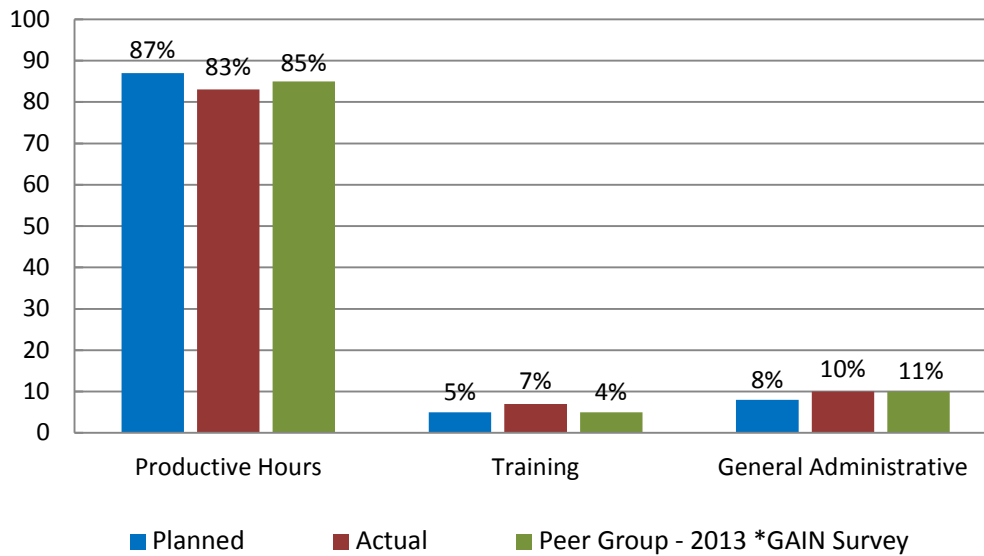


Fiscal Year 2014 personnel expenditure budget was not sufficient to cover existing approved salaries; the non-personnel budget was not sufficient to cover operating needs. The Office utilized reserve funds; however, this is not sustainable long-term.

Fiscal Year 2014 Use of Non-Personnel Expenditures (Actual)



Fiscal Year 2014 Productivity Rate



* Institute of Internal Auditors' Global Audit Information Network Survey

Audit Recommendation Implementation Results

After the expected implementation dates provided by management have passed, all audit recommendations are revisited to determine the status of management's corrective action. It is through this process that the Office validates positive change throughout the University.

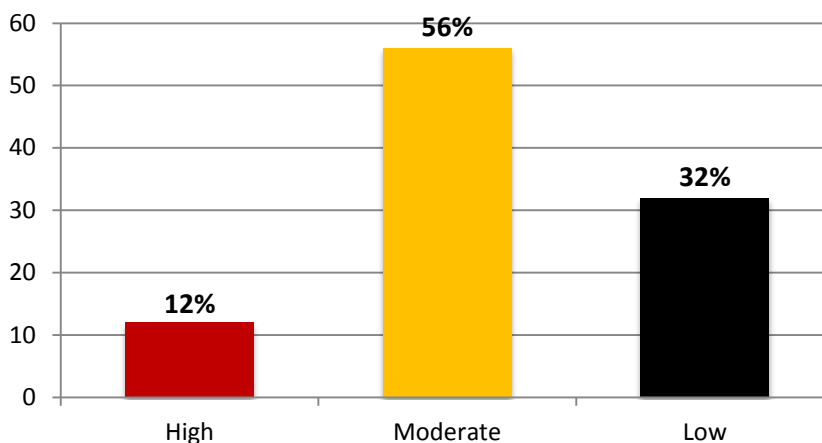
The results of the audit recommendation follow-up activity for fiscal years 2011 through 2014 are presented in the following chart:

Implementation of University Audit Recommendations

	Fiscal Year			
	2011	2012	2013	2014
Beginning Balance	457	448	259	316
New Recommendations	305	212	288	322
Implemented	(300)	(385)	(218)	(299)
Withdrawn or Not Implemented (Risks Accepted by Management)	(14)	(16)	(13)	(20)
Ending Balance	448	259	316	319

Note: Table includes UROs which are University-owned subsidiaries. The Foundation and Alumni Association are not included.

Risk and Priority Rating
All Open Audit Recommendations – 6/30/14



Aging of outstanding audit recommendations at June 30, 2014, by management's original expected implementation date is illustrated in the table below:

Aging of Outstanding Recommendations

Fiscal Year 2018	1
Fiscal Year 2016	22
Fiscal Year 2015	156
Fiscal Year 2014	101
Fiscal Year 2013	19
Fiscal Year 2012	14
Fiscal Year 2011	1
Fiscal Year 2010	4
Fiscal Year 2009	1
Total Recommendations	319

Additional Audit Personnel Contributions in Fiscal Year 2014

Audit personnel contributed support and advisory services throughout the University by representation in the following areas:

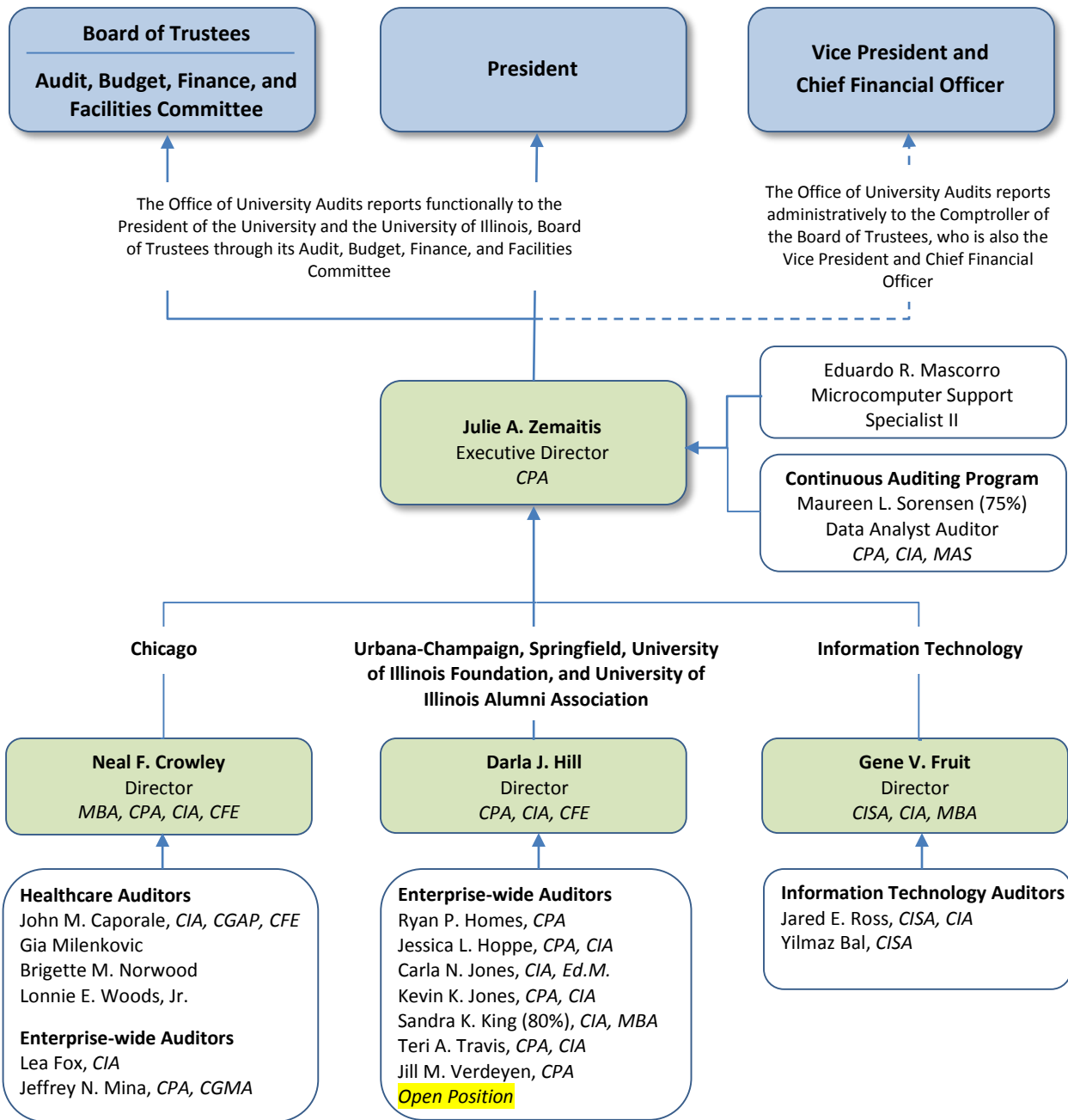
Audit Leadership

- Business Process Improvement Advisory Group
- Business Process Improvement Shared Services Liaison
- President's Policy Council
- UA Information Technology Leadership Council
- UIC Bringing Administrators Together Conference Presenter
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- UIUC IT Caffeine Breaks (weekly campus IT topic discussion group)
- University Information Privacy and Security Committee
- University of Illinois Hospital and Health Science System Compliance Committee
- UIUC Effort Reporting Working Group
- UIUC Uniform Guidance Working Groups
- LINK Program (presentation for new business managers)

Audit Staff

- Joint Commission on Accreditation of Healthcare Organizations Committee
- Search Committee for UIUC Campus Security Engineer
- UIC Business Managers Group
- UIC Bringing Administrators Together Conference Lunch Table Facilitator
- UIC Charitable Fund Drive Representative
- UIC Human Resources Advisory Group
- UIC Information Technology Governance Council, Infrastructure and Security Committee
- UIUC IT Caffeine Breaks (weekly campus IT topic discussion group)
- UIUC IT Alliance Group Presenter
- UIUC Effort Reporting Working Group
- UIUC Uniform Guidance Working Groups
- UIUC and UIS Business Managers Group – regular participation and presentation

Organization Chart as of June 30, 2014



Certifications and Advanced Degrees held by Members of the Office of University Audits

Professional Certifications

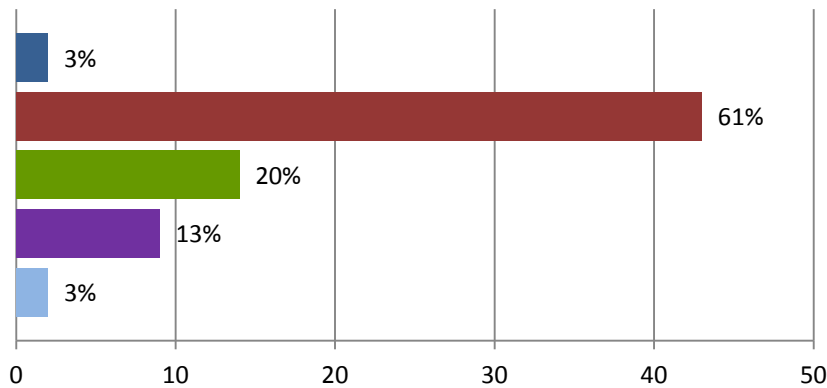
11	CIA = Certified Internal Auditor
10	CPA = Certified Public Accountant
3	CISA = Certified Information Systems Auditor
3	CFE = Certified Fraud Examiner
1	CGMA = Chartered Global Management Accountant
1	CGAP = Certified Government Auditing Professional

Advanced Degrees

2	MBA = Master of Business Administration
1	MAS = Master of Accounting Science
1	Ed.M. = Master of Education

The following summarizes the projects completed during fiscal year 2014. All audits were performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by The Institute of Internal Auditors (IIA) and adopted by the State of Illinois Internal Audit Advisory Board.

Total Audit Reports Issued During Fiscal Year 2014 – 70



Number of Reports Issued by Type:

- Investigative - 2
- Needs Improvement - 43
- Satisfactory - 14
- Continuous Auditing – 9
- Consulting - 2

INTERNAL CONTROL AUDITS

Internal control audits determine whether the unit is conducting its financial and business processes under an adequate system of internal control, as required by University policy and guidelines, and good business practice. These audits fulfill our agreement with the Legislative Audit Commission to perform reviews of judgmentally selected units to test the adequacy of the University’s general systems of internal control.

Internal control audits were performed in the following areas:

Chicago Campus

- University of Illinois Hospital, Therapeutic Infusion Services
- University of Illinois Hospital, Therapeutic Infusion Services, MacNeal Cancer Center Clinic

Urbana-Champaign Campus

- School of Music, University Bands
- Illinois State Water Survey
- University Laboratory High School
- Coordinated Science Lab, Sponsored Projects Administration
- University Housing, Accounting, Financial Reporting and Management Information
- College of Agricultural, Consumer, and Environmental Sciences, University of Illinois Extension, Region 2
- Facilities and Services, Shared Administrative Services, Financial Operations
- Division of Intercollegiate Athletics, State Farm Center

Springfield Campus

- Vice Chancellor for Academic Affairs and Provost, Chief Budget Office/Associate Provost, Turnover Audit

University of Illinois Administration

- Institute of Government and Public Affairs
- University Financial Statement Reporting Process

University of Illinois Foundation

- Bank Reconciliation and Electronic Funds Transfers
- Accounts Payable Process and System Conversion Audit
- Fraud Risk Assessment Review and Testing

Illinois Ventures, L.L.C.

- Internal Control Audit

COMPLIANCE AUDITS

Compliance audits determine the adequacy of the design of systems to ensure compliance with University policies and procedures and external requirements. Audit recommendations typically address the need for improvements in procedures and controls intended to ensure compliance with applicable regulations.

Compliance audits included reviews of:

Chicago Campus

- Office of the Chancellor, Chancellor's Travel and Expense Reimbursements
- Office of the Vice Chancellor for Research, Export Controls
- Office of the Vice Chancellor for Research, Governance and Compliance Macro Opinion
- College of Liberal Arts and Sciences, Department of Slavic and Baltic Languages, Donor Intent
- College of Liberal Arts and Sciences, Department of Chemistry, Donor Intent
- College of Liberal Arts and Sciences, Department of Psychology, Donor Intent
- College of Liberal Arts and Sciences, LAS Administration, Donor Intent

Urbana-Champaign Campus

- Division of Intercollegiate Athletics, Summer Camps/Clinics
- Illinois Natural History Survey, Donor Intent

- Division of Public Safety, Clery Act
- Office of Student Financial Aid, Donor Intent
- Office of the Chancellor, Chancellor's Travel and Expense Reimbursements
- Division of Intercollegiate Athletics, Recruiting
- Office of the Chancellor, Donor Intent

Springfield Campus

- Office of the Chancellor, Chancellor's Travel and Expense Reimbursements

University Administration

- University Payables, Travel and Expense Management Process
- Office of the President, President's Travel and Expense Reimbursements
- Office of the Vice President for Academic Affairs, Vice President for Academic Affairs' Travel and Expense Reimbursements
- Office of the Vice President for Research, Vice President for Research's Travel and Expense Reimbursements
- Office of the President, Donor Intent
- Office of the Vice President and Chief Financial Officer, Vice President and Chief Financial Officer's Travel and Expense Reimbursements

University of Illinois Foundation

- Endowment Spending Calculation and Rate of Return

INFORMATION TECHNOLOGY AUDITS

Information technology audits address the organizations, facilities, and systems used to sustain the information technology services for the University.

Information technology audits included reviews of:

Chicago Campus

- School of Public Health
- College of Medicine
- University of Illinois Hospital, Information Services

Urbana-Champaign Campus

- College of Education
- College of Fine and Applied Arts
- College of Engineering, Portal Framework

University Administration

- Administrative Information Technology Services, Banner Financial System, Finance Module

OPERATIONAL AUDITS

Operational audits examine the use of unit resources to evaluate whether those resources are being used in the most efficient and effective ways to fulfill missions, objectives, and business purposes. An operational audit can include elements of a compliance audit, a financial audit, and an information technology audit.

Operational audits included reviews of:

Chicago Campus

- College of Dentistry, Dental Clinics, Dental Clinic Revenue Cycle
- Research Resources Center
- University of Illinois Hospital, Patient Access, Patient Logistics and Customer Access, Patient Registration
- University Office of Capital Programs and Real Estate Services, UIC Office of Capital Programs, Mile Square Health Center Construction
- Vice Chancellor for Student Affairs, CampusCare
- University of Illinois Hospital, Consulting Agreements

Urbana-Champaign Campus

- Facilities and Services, Transportation and Automotive Services

University Administration

- Vice President for Health Affairs
- University Payroll and Benefits

CONTINUOUS AUDITING

Continuous auditing is a method used to perform various data analysis techniques to identify anomalies and other indicators of fraud and internal control weaknesses. Continuous auditing changes the traditional auditing paradigm of periodic reviews of a sample of transactions to ongoing audit testing of 100 percent of transactions within a specified area.

Continuous auditing included selected reviews in the areas of:

University-wide

- Student Refunds
- Information Technology Equipment Purchases
- Employee Award Payments
- Payroll Adjustments
- Employee Leave Record Adjustments
- Credit Card Refunds
- Familial Conflicts of Interest in Grant Research
- P-Card Purchases
- iBuy Transactions

Office of University Audits External Quality Assurance Report

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**STATE OF ILLINOIS
 INTERNAL AUDIT ADVISORY BOARD**

WEB ADDRESS: [HTTP://SIAAB.AUDITS.UILLINOIS.EDU](http://SIAAB.AUDITS.UILLINOIS.EDU)

July 7, 2014

Robert A Easter
 President, University of Illinois
 364 Henry Administration Building
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 MC 346
 Urbana, IL 61801-3689

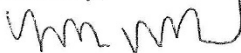
Dear Mr. Easter:

The State Internal Audit Advisory Board met on June 10, 2014, and accepted the results of the University of Illinois' Quality Assurance Report that was submitted to the Board on April 10, 2014, for subsequent review and approval for release. The University of Illinois' Self-Assessment with Independent External Validation was based upon the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing January 1, 2013.

The results of the Self-Assessment with Independent External Validation reported that the University of Illinois Internal Audit activity generally conformed to both the Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing and Code of Ethics; and complied in all material respects to the Fiscal Control and Internal Auditing Act.

We would like to acknowledge the excellent cooperation and assistance provided by Ms. Julie Zemaitis and the independent validation team. Enclosed with this letter you will find the Quality Assurance Report. Please do not hesitate to contact us should you have any questions or concerns.

Sincerely,



Marcus A. Dodd, Chair

Enclosure

CC: Ms. Julie Zemaitis, Chief Internal Auditor

STATE OF ILLINOIS

UNIVERSITY OF ILLINOIS
OFFICE OF UNIVERSITY AUDITS

SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL VALIDATION REPORT


April 7, 2014

It is our opinion that the University of Illinois' Office of University Audits' Executive Director of University Audits performed an adequate Self-Assessment with Independent External Validation Report (SAIV) and that the internal audit activity generally conforms with the Institute of Internal Auditors' (IIA) *Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing (Standards) effective January 1, 2013*, and complies with the Fiscal Control and Internal Auditing Act (FCIAA).


Julie Zemaitis – Executive Director


Robert Blemler – External Validation
Team Leader


Deb Dahlke – External Validation
Team Member


Kim Labonte – External Validation
Team Member

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UNIVERSITY OF ILLINOIS
OFFICE OF UNIVERSITY AUDITS

SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL VALIDATION REPORT

Executive Summary

The Office of University Audits (OUA) has conducted a Self-Assessment with Independent Validation of the internal audit activity. Our review was based on the State of Illinois Internal Audit Advisory Board (SIAAB) and the Institute of Internal Auditors (IIA) guidelines in the performance of the Self-Assessment with Independent Validation.

We evaluated the extent of the OUA's conformance with the IIA's *Definition of Internal Auditing, Code of Ethics, and Standards (Effective January 1, 2013)*, and compliance with FCIAA. The Self-Assessment with Independent Validation was for the period of January 1, 2013, through February 28, 2014.

As part of our Self-Assessment with Independent Validation, we completed the SIAAB Quality Assurance Matrix. The External Validation Team, comprised of Robert Blemler, Director of Internal Audit, Illinois State University; Deb Dahlke, Director, Office of Internal Audit, University of Nebraska-Lincoln; and Kimberly Labonte, Executive Director of Internal Audits, Southern Illinois University, performed an on-site validation between March 17, 2014, and March 19, 2014. During this period, they tested the OUA's conformance with the IIA's *Definition of Internal Auditing, Code of Ethics, and Standards (Effective January 1, 2013)*, and compliance with FCIAA.

In performing the Self-Assessment with Independent Validation we used the IIA's basis for the determination of conformance and/or the SIAAB basis for determination of compliance with FCIAA, as described below:

- **Generally Conforms:** means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, conform with the requirements of the IIA's *Definition of Internal Auditing, Code of Ethics and Standards*; and comply with the Fiscal Control and Internal Auditing Act in all material respects. This means that there is general conformity to a majority of the IIA's *Definition of Internal Auditing, Code of Ethics, and Standards*; and full compliance with the FCIAA. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the IIA's *Definition of Internal Auditing, Code of Ethics and Standards*; or full compliance with the FCIAA in such a manner that it is not applying them effectively, or is not achieving their stated objectives.
- **Partially Conforms:** means the evaluator has concluded that the activity is making good-faith efforts to be in conformity with the requirements of the IIA's *Definition of Internal Auditing, Code of Ethics, and Standards*; and full compliance with the FCIAA, but has fallen short of achieving some of their major objectives. These will usually represent some significant opportunities for improvement in effectively applying the IIA's *Definition of Internal Auditing, Code of Ethics and Standards*; and full compliance with the FCIAA and/or achieving their objectives. Some of the deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the governing authority.
- **Does Not Conform:** means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to be in conformity with, or is failing to achieve many/all of the objectives of the IIA's *Definition of Internal Auditing, Code of Ethics, and Standards*; and full compliance with the FCIAA. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organization. They may also represent significant opportunities for improvement, including actions by senior management or the governing authority.

Our report includes the Executive Directors' and External Validation Team's concurrence and comments, and any actions planned necessary for the OUA to build a more effective internal audit organization. Presented on the following pages are the results of the Self-Assessment with Independent Validation, by assessment area:

- a. Conformance with the IIA's *Definition of Internal Auditing, Code of Ethics and (Standards)*; and
- b. Compliance with the FCIAA.

We take this opportunity to acknowledge the valuable assistance offered by the External Validation Team.

UNIVERSITY OF ILLINOIS
OFFICE OF UNIVERSITY AUDITS

SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL
VALIDATION REPORT

IIA ATTRIBUTE STANDARDS

1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 – The nature of consulting services must be defined in the internal audit charter.

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

IIA Attribute Standards (continued):

1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- *Approving the internal audit charter;*
- *Approving the risk based internal audit plan;*
- *Approving the internal audit budget and resource plan;*
- *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
- *Approving decisions regarding the appointment and removal of the chief audit executive;*
- *Approving the remuneration of the chief audit executive; and*
- *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

1110.A1 – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 – Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

IIA Attribute Standards (continued):

1120 – Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 – Impairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

IIA Attribute Standards (continued):

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

1200 – Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

IIA Attribute Standards (continued):

1220 – Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 – Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement’s objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

1220.A2 – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 – Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement’s objectives; and
- Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

IIA Attribute Standards (continued):

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1311 – Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1312 – External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

IIA Attribute Standards (continued):

Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team's evaluation demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards.

IIA Attribute Standards (continued):

The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

IIA PERFORMANCE STANDARDS

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*
- *The internal audit activity conforms with the Definition of Internal Auditing and the Standards;*
and
- *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.*

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

IIA Performance Standards (continued):

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 – The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 – The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

IIA Performance Standards (continued):

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 – Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 – External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

Interpretation

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

IIA Performance Standards (continued):

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization;
and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor’s assessment that:

- *Organizational objectives support and align with the organization’s mission;*
- *Significant risks are identified and assessed;*
- *Appropriate risk responses are selected that align risks with the organization’s risk appetite;*
and
- *Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.*

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization’s risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 – The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding the:

IIA Performance Standards (continued):

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 – Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 – When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 – Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 – The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 – Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

IIA Performance Standards (continued):

2200 – Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

2201 – Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;
- The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model; and
- The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

2201.A1 – When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 – Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 – Engagement Objectives

Objectives must be established for each engagement.

2210.A1 – Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 – Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 – Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

IIA Performance Standards *(continued)*:

2210.C1 – Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 – Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

2220 – Engagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 – The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 – If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 – In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 – During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

2230 – Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 – Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 – Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 – Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

IIA Performance Standards (continued):

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

2300 – Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 – Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

Interpretation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 – Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1 – The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 – The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

IIA Performance Standards (continued):

2330.C1 – The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

2400 – Communicating Results

Internal auditors must communicate the results of engagements.

2410 – Criteria for Communicating

Communications must include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 - Final communication of engagement results must, where appropriate, contain the internal auditors’ opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

IIA Performance Standards (continued):

2410.A2 – Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 – When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

2421 – Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 – Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”

Internal auditors may report that their engagements are “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing”, only if the results of the quality assurance and improvement program support the statement.

2431 – Engagement Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the Standards impacts a specific engagement, communication of the results must disclose the:

IIA Performance Standards (continued):

- Principle or rule of conduct of the Code of Ethics or *Standard(s)* with which full conformance was not achieved;
- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 – The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 – If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- Assess the potential risk to the organization;
- Consult with senior management and/or legal counsel as appropriate; and
- Control dissemination by restricting the use of the results.

2440.C1 – The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 – During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 – Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will identify:

- *The scope, including the time period to which the opinion pertains;*
- *Scope limitations;*
- *Consideration of all related projects including the reliance on other assurance providers;*
- *The risk or control framework or other criteria used as a basis for the overall opinion; and*
- *The overall opinion, judgment, or conclusion reached.*

IIA Performance Standards *(continued)*:

The reasons for an unfavorable overall opinion must be stated.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

2500 – Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 – The chief audit executive must 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.

2500.C1 – The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

2600 – Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
OFFICE OF UNIVERSITY AUDITS

**SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL
VALIDATION REPORT**

IIA Code of Ethics

Principles

Internal auditors are expected to apply and uphold the following principles:

1. Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

2. Objectivity

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

3. Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. Competency

Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

IIA Code of Ethics (continued):

2. Objectivity

Internal auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency

Internal auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

STATE OF ILLINOIS
UNIVERSITY OF ILLINOIS
OFFICE OF UNIVERSITY AUDITS

**SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL
VALIDATION REPORT**

Fiscal Control and Internal Auditing Act Article 2 - Internal Auditing

Section 2001 – Program of Internal Auditing

Each designated State agency as defined in Section 1003(a) shall maintain a full-time program of internal auditing. In the event that a designated State agency is merged, abolished, reorganized, or renamed, the successor State agency shall also be a designated State agency.

Within 30 days after the effective date of Public Act 96-975, each chief internal auditor transferred under Executive Order 2003-10 to the Department of Central Management Services shall be transferred to the auditor's designated State agency, and if an auditor does not have a designated State agency or has more than one designated State agency, then the chief executive officer of a State agency shall appoint such person as the chief internal auditor of a State agency. A chief internal auditor transferred under Public Act 96-975 shall be appointed to a 5-year term beginning on the effective date of Public Act 96-975 (July 1, 2010).

The rights of employees and of the State and its agencies under the Personnel Code and applicable collective bargaining agreements or under any pension retirement or annuity plan shall not be affected by Public Act 96-975.

All books, records, papers, documents, property (real and personal), unexpended appropriations, and pending business pertaining to the functions transferred by Public Act 96-975 shall be delivered to the respective State agency pursuant to the direction of the chief executive officer of that State agency.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

FCIAA (continued):

Section 2002 – Qualifications of the Chief Internal Auditor

The chief executive officer of each designated State agency shall appoint a chief internal auditor with a bachelor's degree, who is either:

1. A certified internal auditor by examination or a certified public accountant who has at least 4 years of progressively a responsible professional auditing experience; or
2. An auditor with at least 5 years of progressively responsible professional auditing experience.

The chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief executive officer and the governing board, if applicable, in the exercise of auditing activities. All chief internal auditors and all full-time members of an internal audit staff shall be free of operational duties.

The chief internal auditor shall serve a 5-year term beginning on the date of the appointment. A chief internal auditor may be removed only for cause after a hearing before the Executive Ethics Commission concerning the removal. Any chief internal auditor who is appointed to replace a removed chief internal auditor may serve only until the expiration of the term of the removed chief internal auditor. The annual salary of a chief internal auditor cannot be diminished during the term of the chief internal auditor.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

Section 2003 – Internal Auditing Program Requirements

The chief executive officer of each designated State agency shall ensure that the internal auditing program includes:

1. A two-year plan, identifying audits scheduled for the pending fiscal year approved by the chief executive officer before the beginning of the fiscal year. By September 30 of each year the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.

FCIAA (continued):

2. Audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. The audits must include testing of:
 - a. The obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations; and
 - b. Grants received or made by the designated State agency to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.
3. Reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.
4. Special audits of operations, procedures, programs, electronic data processing systems, and activities as directed by the chief executive officer or by the governing board, if applicable.

Each chief internal auditor shall have, in addition to all other powers or duties authorized by law, required by professional ethics or standards, or assigned consistent with this Act, the powers necessary to carry out the duties required by this Act.

Executive Director of University Audits:

The Office of University Audits generally conforms without exceptions noted.

External Validation Team: We concur.

MISSION

The mission of the Office of University Audits (University Audits) is to provide independent and objective services to protect and strengthen the University and its related organizations.

DEFINITION OF INTERNAL AUDITING

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

PURPOSE

The purpose of University Audits is to determine whether the University's control, risk management, and governance processes, as designed and implemented by management, are adequate and functioning to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with University policies and procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Plans and objectives are achieved.
- Quality and continuous improvement are fostered in the University's control processes.
- Significant legislative or regulatory issues impacting the University are recognized and addressed appropriately.

University Audits reports functionally to the President of the University (President) and The Board of Trustees (BOT) of the University of Illinois through its Audit, Budget, Finance, and Facilities Committee (ABFFC), and administratively to the Comptroller of the Board of Trustees, who is also the Vice President and Chief Financial Officer.

INTERNAL AUDITING RESPONSIBILITIES

The Office responsibilities include the following:

- Develop a flexible two-year plan identifying audits scheduled for the pending fiscal year, using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plan to the President for approval by June 30 of each year.

- Implement the audit plan, as approved by the President, including as appropriate any special tasks or projects requested by management and the ABFFC.
- Issue periodic reports to the President and Chairman of the ABFFC summarizing results of audit activities.
- Report annually to the ABFFC regarding audit plans, activities, staffing, and the organizational structure.
- Report to the ABFFC and BOT by September 30 of each year the scope and results of audits and the adequacy of management's corrective actions.
- Maintain sufficient knowledge, skills, and experience to meet the requirements of this Charter.
- Assist University management by conducting special services to assist management in meeting its objectives, where appropriate, the nature of which is agreed to with management, and for which University Audits assumes no management responsibility.
- Assist in the investigation of significant suspected fraudulent activities within the institution and notify management and the ABFFC of the results.
- Establish a follow-up process to monitor and identify whether management actions have been effectively implemented, or senior management has accepted the risk of not taking action.
- Consider the scope of work of the external auditors and regulators as appropriate for the purpose of providing optimal audit coverage to the institution.
- Periodically provide the Internal Audit Charter to the ABFFC for review and approval.

AUTHORITY

The general scope of audit coverage is University-wide and no function, activity, or unit of the University or a related organization is exempt from audit and review. No officer, administrator, or staff member may interfere with or prohibit internal auditors from examining any University or related organization's record or interviewing any employee or student that the auditors believe necessary to carry out their duties. Additionally, the Executive Director has the authority to audit the accounts of all organizations required to submit financial statements to the University.

In performing their work, internal auditors have neither direct authority over, nor responsibility for, any of the activities reviewed. Internal auditors do not develop and install procedures, prepare records, make management decisions, or engage in any other activity that could be reasonably construed to compromise their independence or impair their objectivity. Therefore, internal audit reviews do not, in any way, substitute for or relieve other University personnel from their assigned responsibilities.

PROFESSIONAL STANDARDS

University Audits has the responsibility to carry out its duties as defined by the State of Illinois *Fiscal Control and Internal Auditing Act* ([Illinois Compiled Statutes, 30 ILCS 10/1001](#)). Those responsibilities include performing audits in accordance with The Institute of Internal Auditor's *International Professional Practices Framework (IPPF)*, which the State of Illinois Internal Audit Advisory Board has adopted as the standard of performance for all state internal auditors. The IPPF requires mandatory adherence to the Definition of Internal Auditing, the Code of Ethics, and the Standards.

MISSION

The mission of the Office of University Audits (University Audits) is to provide independent and objective services to protect and strengthen the University and its related organizations.

VISION

Be an innovative driver of positive change while striving to be the premier audit function in higher education.

GUIDING VALUES

We perform all that we do with:

- Objectivity
- Independence
- Integrity
- Confidence
- Credibility
- Leadership
- Straightforwardness
- Excellence
- Innovation
- Professionalism

STRATEGIC GOALS

1. Our Office will continue to cultivate relationships and understanding through communication with the Board of Trustees and senior leadership of the University.
2. Serve as counsel to the Board of Trustees; the Audit, Budget, Finance, and Facilities Committee; management; and other constituents.
3. Enhance audit efficiencies and effectiveness.
4. Provide a professional, well-trained, and motivated team in the delivery of internal audit services.
5. Perform audit activities by utilizing a dynamic comprehensive audit process and plan based on assessed risk, in compliance with IIA Standards.

University of Illinois - Office of University Audits
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