

University of North Carolina at Charlotte

External Quality Assessment Report

May 12, 2023

Prepared by





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EXECUTIVE SUMMARY

Introduction

Internal auditing is one of the cornerstones of corporate governance. Because of its unique position within organizations, internal audit provides audit committee members and senior management with valuable assistance by delivering an objective assessment on governance, risk management and control processes. To do this effectively, an internal audit activity must be adequately resourced, professionally staffed and follow the International Professional Practices Framework (IPPF). The IPPF, the conceptual framework developed by the Institute of Internal Auditors (IIA), is a comprehensive set of mandatory guidance which is principles-based and is considered the essential requirement for establishing and performing internal auditing. The four mandatory elements of the IPPF are the Definition of Internal Auditing, Core Principles, the Code of Ethics and the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Honkamp, P.C. was engaged to perform an external quality assessment (QA) of the University of North Carolina at Charlotte (UNC Charlotte) Internal Audit Department (IAD). This engagement was conducted in accordance with *Standard* 1312 – External Assessments, related Implementation Guidance and the *Quality Assessment Manual* published by the Institute of Internal Auditors Research Foundation.

This report is intended solely for the information and use of the IAD, Board of Trustees, and senior management of UNC Charlotte and is not intended to be, and should not be used, by anyone other than these specified parties.



Honkamp, P.C. Solution

Standard 1300 requires internal auditors to develop and maintain a Quality Assurance and Improvement Program (QA&IP). In addition to both ongoing and periodic internal assessments, the *Standards* also require an external quality assessment of the internal audit activity's adherence to the IPPF at least once every five years.

Objectives

The engagement was designed to achieve the following objectives:

- Evaluate the IAD's level of conformity with the IIA *Standards* and Code of Ethics;
- Identify opportunities for improving the efficiency and effectiveness of the IAD; and
- Identify opportunities to help ensure the expectations of the board, stakeholders and executive management are being met.

Scope

The fieldwork was completed remotely, beginning on March 20, 2023 and concluded with a formal closing conference on April 5, 2023. In order to achieve the objectives of the QA, the following items were reviewed or performed:

- Information provided in advance by the IAD, which included detailed information about the organization and the IAD;
- Discussions with the Chief Audit Officer (CAO);
- Confidential surveys of UNC Charlotte executives and managers (IAD internal clients);
- Interviews of the Audit, Compliance, and Enterprise Risk Management Committee (ACERM) Chair, eight members of senior management, and three staff members; and
- Workpapers and reports for a sample of four engagements completed by the IAD in the past 12 months.

The IAD's risk assessment and audit planning processes, audit tools and methodologies, and engagement and staff management processes were also reviewed.



Notable Performance Aspects

The IAD is seen as one of the key cornerstones of UNC Charlotte governance, as evidenced by interviews, surveys, document reviews and observations. We found numerous positive aspects about the IAD and the work it performs. Some of the more notable positive aspects and practices include:

- Strong management and ACERM support for the IAD and the CAO indicated in interview discussions and very positive client survey results
- Audit universe and risk assessment process well defined, including, objective risk factors
- Design of administrative reporting relationship enhanced collaboration with other assurance functions
- Restrictive language regarding distribution included on all audit reports
- Annual independence and conflict of interest signoff process
- Senior management input to annual risk assessment process
- Professionally structured and thorough internal audit manual developed on basis of the *Standards*

The UNC Charlotte IAD has demonstrated a commitment to quality, successful leadership practices and maintaining an internal auditor's mindset for professionalism. Our assessment noted the IAD has developed and implemented methodologies, policies and procedures, and is building a team of experienced auditors based upon achieving its mandates. Evaluation of the IAD's processes and related audit workpapers evidenced that the IAD conducts its work in an organized, consistent fashion while providing value to the organization.



Conformity Rating

The IIA QA framework provides a system for rating conformity to the *Standards*, which consists of three categories: generally conforms, partially conforms and does not conform. The framework describes these categories as follows:

Generally Conforms (GC) means that an internal audit activity has a charter, policies and processes that are judged to be in accordance with the *Standards* in all material respects, but some opportunities for improvement may exist.

Partially Conforms (PC) means that practices were noted that are judged to deviate from the *Standards*, but they did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.

Does Not Conform (DNC) means that deficiencies in practices were judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

The QA team rates the UNC Charlotte IAD as follows:

Attribute <i>Standards</i>:	Generally Conforms
Performance <i>Standards</i>:	Generally Conforms
Code of Ethics:	Generally Conforms
OVERALL EVALUATION:	GENERALLY CONFORMS



Opportunities and Practice Improvement Suggestions – Summary

No corrective actions are needed to generally conform with the *Standards*, however, opportunities and practice improvement suggestions that we believe will further improve the effectiveness of the IAD are summarized as follows.

Practice Improvement Suggestions for Internal Audit Department Consideration

1. Enhance the IAD Charter by including definition of assurance and consulting work in the charter. (*Standard* 1000.A1 and 1000.C1 – Purpose, Authority and Responsibility)
2. Consider having IAD staff document their lack of conflicts of interest for each engagement. (*Standard* 1130 – Impairment to Independence or Objectivity)
3. Enhance documentation of the engagement level risk assessment process by showing all risks that were considered, not just the risks that were deemed in scope. Consideration of fraud risk should be documented for each audit. (*Standard* 2210.A1 and A2 – Engagement Objectives)

Additional detail about the above listed opportunities and best practices is provided in the Report Detail section that follows this Summary. Thank you again for the opportunity to provide you with our quality assessment services.

Respectfully,

HONKAMP, P.C.

Honkamp, P.C.



REPORT DETAIL

Practice Improvement Suggestions for Internal Audit Department Consideration

Observation	Recommendation	Response
<p>1. Enhance Internal Audit Department Charter – <i>Standards</i> 1000.A1 / 1000.C1 states the nature of assurance and consulting services provided to the organization must be defined in the internal audit charter.</p> <p>The UNC Charlotte IAD Charter does not include language that defines and clearly distinguishes its consulting services from assurance services to be provided.</p> <p>(<i>Standards</i> 1000.A1 and 1000.C1 – Purpose, Authority and Responsibility)</p>	<p>The IAD should consider including language in its charter that defines the nature of its assurance services and consulting services.</p>	<p>We will include the definitions of assurance and consulting services in the next revision of our IAD Charter.</p> <p>Target completion date: December 31, 2023.</p>
<p>2. Individual Engagement Staff Acknowledgement of Independence and No Conflicts of Interest – <i>Standard</i> 1120 states internal auditors must have an impartial attitude and avoid any conflict of interest. <i>Standard</i> 1130 goes on to state 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.</p> <p>The IAD addresses this topic within their IAD Charter, policies and procedures, and staff interviews confirmed they are aware of these <i>Standards</i> requirements; however, it is not addressed at the engagement level.</p> <p>(<i>Standard</i> 1120 – Individual Objectivity and <i>Standard</i> 1130 – Impairment to Independence and Objectivity)</p>	<p>The IAD should consider establishing a procedure for documenting auditor acknowledgements regarding objectivity and possible conflicts of interest related to individual audit engagements.</p>	<p>We will consider adding independence and conflict of interest acknowledgements for each audit, in addition to the annual acknowledgement that we currently do.</p> <p>Target completion date: For audits on the FY 2024 Audit Plan, if implemented.</p>



Practice Improvement Suggestions for Internal Audit Department Consideration

Observation	Recommendation	Response
<p>3. Enhancement of Engagement Level Risk Assessment – <i>Standard</i> 2210.A1 states 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. Additionally, <i>Standard</i> 2210.A2 states internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.</p> <p>The IAD conducts an assessment of potential risks for each audit in the preliminary planning process; however, only risks determined by the IAD to be in scope are documented in the workpapers.</p> <p>In addition, the IAD staff indicated the potential for fraud is considered in the preliminary planning process but is not consistently documented.</p> <p>(<i>Standards</i> 2210.A1 and A2 – Engagement Objectives)</p>	<p>The IAD should enhance the engagement level planning process by documenting all risks that were considered, not just the ones that were determined to be in scope for testing. This process will enhance audit client buy-in by helping assure focus is placed on significant risks in the audit scope.</p> <p>In addition, the assessment of the potential for fraud should be documented as part of the engagement level risk assessment process recommended above.</p>	<p>We will provide training to staff on better documentation of the engagement level risk assessment process.</p> <p>Target completion date: December 31, 2023.</p>



APPENDIX A

Standards Conformance Evaluation Summary

Attribute Standards

		GC	PC	DNC
1000	Purpose, Authority and Responsibility	X		
1100	Independence and Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1300	Quality Assurance and Improvement Program	X		

Performance Standards

		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2100	Nature of Work	X		
2200	Engagement Planning	X		
2300	Performing the Engagement	X		
2400	Communicating Results	X		
2500	Monitoring Progress	X		
2600	Management's Acceptance of Risks	X		