BEST PRACTICES IN AUDIT COMMITTEES THAT ALL AUDITORS NEED TO KNOW

5th Annual Super Conference
October 28, 2016
Objectives & Agenda

- Describe the roles and responsibilities of the audit committee members, including the CAE, as part of the governance and assurance system within your institution.

- Understand how to communicate with your audit committee and what they need to know about emerging risks and changes to the internal audit function.

- Identify best practices and characteristics of effective audit committees, including reporting, presentation materials, and educating members.

1. Audit Committee Governance
2. Communicating with the Audit Committee
3. Audit Committee Meetings
4. Best Practices
Audit Committee Governance
UT System

- 221K Students Enrolled
- 55K Degrees Awarded
- $2.6B in Research
- 150 Members in National Academies
- $16.9B Operating Budget
- 7.4M Outpatient Visits
- 100K Employees in TX

UTDallas

UT System Map with various institutions.
Audit Committee Charters

Charter

- Authority
- Purpose

The Three Lines of Defense Model


- Roles/Composition
Audit Committee Responsibilities

• Meetings

• Responsibilities & Oversight
  ✓ Business, technology, and financial risk management – does management demonstrate identification of these risks
  ✓ Review key reports (certifications, external audits, internal audits, fraud reports/hotline calls/whistleblower procedures, etc.)
  ✓ Internal Audit charter, annual plan and status, risk assessments, status of recommendations, quality assurance review, input on evaluation, hiring, and termination of CAE
  ✓ External audits contracts, reports
  ✓ SEC Disclosures

❖ Nondisclosure Agreements?
Audit Committee Members

- Independent
- Financial Expert
- Knowledgeable (risks, business)
- Communication Skills
- Leaders
- Ethical
- Time
Communicating with the Audit Committee
Communication Challenges

Others?
- Internal Auditor Skills
- Time Constraints
- Audit Committee Composition
- Audit Committee Engagement
- Changing Business Environment
- Changing Role of Internal Audit
- Others?
How to Communicate with the Audit Committee

• Audit Committee Questionnaire
• Executive Sessions
• Presentations by guest speakers on high-risk topics and emerging issues (CISO, Compliance, etc.)
• Performance Appraisals: Self-assessments, 360° feedback, peer reviews
• Both Formal AND Informal discussions
• Marketing
  “How an organization responds to Internal Audit says a lot about the company’s culture”
• “Communications must be accurate, objective, clear, concise, constructive, complete, and timely.”
• Education
Educating the Audit Committee

- Orientation
  - Chair
  - New Members
- Continuing Education
Audit Committee Orientation

- What Is Internal Audit – Goals
- Governance Structure
- Audit Committee Charter
- Three Lines of Defense Model
- Vision and Strategies
- Departmental Information
  - Reporting
  - Risk Assessment and Planning
  - Budget
  - Staffing
  - Departmental Charter
Audit Committee “CPE”

- IIA’s Audit Committee Resource Exchange
- AICPA Audit Committee Effectiveness Center
Six Tips to Strengthen Audit Committee Relationships

1. Communicate with Chair
2. Develop Strong Relationship with Chair
3. Ensure Members Understand Their Responsibilities
4. Create Efficient Communication Channels
5. Be that GO TO Person
6. Make the Most of Your Time with the Committee

Richard Chambers, IIA President and CEO
Audit Committee Meetings
Audit Committee Meetings

http://videoportal.utsystem.edu/Mediasite/Play/465d46424cf2475385a535da66cd39001d
<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Frequency</th>
<th>September</th>
<th>December</th>
<th>March</th>
<th>June</th>
<th>Comments</th>
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<tr>
<td>Agenda meeting quarter with Audit Committee Chair, President, and CAE</td>
<td>Q, Q, P</td>
<td>X</td>
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<tr>
<td>Committee Meet Quarterly to Review:</td>
<td>Q, Q, P</td>
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<td>- Audit Reports</td>
<td>Q, Q, P</td>
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<tr>
<td>- Audit Plan Status</td>
<td>Q, Q, P</td>
<td>X</td>
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<tr>
<td>- Priority Findings and Management Action Plans</td>
<td>Q, Q, P</td>
<td>X</td>
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<tr>
<td>- External Audits, including SAO</td>
<td>Q, Q, P</td>
<td>X</td>
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<td>- Confidential internal reporting</td>
<td>Q, Q, P</td>
<td>X</td>
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<tr>
<td>- Utilization of internal audit resources</td>
<td>Q, Q, P</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Chief Information Security Officer's Report</td>
<td>P, P</td>
<td>X</td>
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<td>Compliance Officer's Report</td>
<td>P, P</td>
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<td>Controller's Report</td>
<td>P, P</td>
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<td>X</td>
<td>Review UT Dallas' Financial Reporting Process &amp; Results</td>
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<tr>
<td>Discuss Audit Plan and Risk Assessment Methodology</td>
<td>A, P</td>
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<tr>
<td>Approve Audit Plan and Risk Assessment Methodology</td>
<td>A, P</td>
<td></td>
<td>X</td>
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<td>Review/Approve Changes to Audit Plan</td>
<td>P, P</td>
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<td>As needed</td>
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<td>Review IA Self-Assessment and Internal QAR</td>
<td>A, P</td>
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<td>Review Staff and Organization of IA</td>
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<td>Review/Update IAC Charter and Assess Performance</td>
<td>A, P</td>
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<tr>
<td>Review/Approve Audit Committee Charter</td>
<td>A, P</td>
<td></td>
<td>X</td>
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<td></td>
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<tr>
<td>Review/Approve Internal Audit Charter</td>
<td>A, P</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
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<tr>
<td>Review IA's Quality Assurance Results (external)</td>
<td>P, P</td>
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<td>X</td>
<td></td>
<td>X</td>
<td>Every three years</td>
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<tr>
<td>Hold Executive Session as needed to assess the performance of the internal audit function or discuss matters as determined by Chair</td>
<td>Q, Q, P</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Provide input to the UT System Chief Audit Executive for the hiring, dismissal, and annual evaluation of the CAE</td>
<td>A, P</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>As needed</td>
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<tr>
<td>Review any external audit firm contractual arrangements with the institution to confirm management compliance with Regents' Rule 20402, Provision of Audit and Non-Audit Services by External Firms</td>
<td>P, P</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>As needed</td>
</tr>
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</table>
Audit Committee Agenda

1. Call to Order and Introductions
2. Review and Approve Minutes from Previous Meeting
   Action Items from Previous Meetings
3. Current Topics and Reports
   a. Audit Committee Chair’s Report
   b. President’s Report
   c. UT System Audit’s Report
   d. Chief Information Security Officer’s Report
   e. External Audits
4. Completed Audit and Consulting Projects
   a. Summary of Consulting and Other Reports Issued
      Since Last Audit Committee Meeting
5. Audit Plan Status, Adjustments, and Summary
   Statistics
   a. FY 16 Audit Plan Status
   b. Summary of Projects Planned for Next Quarter
      & Proposed Adjustments
6. Status of Previous Audit Recommendations
   a. Priority
   b. All
7. New Business
   a. Hotline calls
   b. Quality Assurance and Improvement Program
   c. Strategic Plan
   d. Requests for Audits
8. Departmental Matters
   a. Staffing
   b. Accomplishments
   c. Quarterly Internal Audit Dashboard Summary
9. Future IAC Meeting Dates & Times
10. Executive Session

Tabs
A. 3rd Quarter FY 16 Minutes
B. Internal Audit Charter
C. FY 16 Audit Plan Status (detailed)
D. Risk Definitions
E. Internal Audit Strategic Plan
F. Internal Audit Monitoring Dashboard Definitions

TABLE OF CONTENTS
1. UT T. Systems Board of Regents; Discussion and appropriate
   action regarding removal Agenda Item, if still, assigned for
   Committee consideration
2. UT T. Systems Board of Regents; Proposed amendments to
   Regents' Rules and Regulations, Rule 519, regarding
   Expenditures for Travel and Entertainment by Chief
   Administrators and for the Maintenance of University
   Residues
3. UT T. Systems; Approval of the UT T. Systemwide Annual
   Internal Audit Plan for Fiscal Year 2015
4. UT T. Systems; Report on Audits of the Systemwide Cancer
   Prevention and Research Institute of Texas (S2P2T) Grants
5. UT T. Systems; Report on the Systemwide Internal Audit
   Initiatives, including Priority Findings and Annual Audit Plan
   Status
   and Compliance Strategic Plan

Adjourn
2:00 p.m.
Audit Committee Materials

Board of Regents Meetings Style Guide
### Use of Dashboards – Annual Reporting

<table>
<thead>
<tr>
<th>Effectiveness &amp; Efficiency</th>
<th>Quality</th>
<th>Sustainability</th>
<th>Management</th>
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</thead>
<tbody>
<tr>
<td>Audit Plan Actual hours completed</td>
<td>Number of audits that used data analytics meets goal for the year</td>
<td>Staffing levels are adequate to complete annual plan</td>
<td>Recommendations for Priority Findings are implemented by due date</td>
</tr>
<tr>
<td>Audit Plan Projects completed</td>
<td>Average client satisfaction</td>
<td>Staff have professional certifications</td>
<td>Audit recommendations are implemented timely</td>
</tr>
<tr>
<td>Audit reports issued within standard timeframe</td>
<td>Quality Assurance review shows they Conform with Auditing Standards</td>
<td>All audit staff receive feedback and evaluations</td>
<td>Management responses received timely</td>
</tr>
<tr>
<td>Direct audit hours meets standard</td>
<td>Number of management requests for audit services meets goal for the year</td>
<td>All auditors obtain sufficient CPE training each year</td>
<td></td>
</tr>
</tbody>
</table>

|                                  | Number of audit special projects and consulting engagements completed meets goal for the year | |

### Key Accomplishments (Annual)

- Developed a co-sourcing strategy.
- Improved controls through consulting work on 15 key institution initiatives.
- Developed 25 new data analytic reports that improved audit performance throughout the year.
- Worked with 15 student interns during the year on six projects.
PREPARATION

“By failing to prepare you are preparing to fail.”

Benjamin Franklin

http://uh.mediasite.com/mediasite/Play/8ed1d9a4085b46a6a3b1b734dfbec63f1d#Audit-21915
Executive Sessions

• When?
• Who?
• Why?

What?

Source: IIA Audit Executive Center AEC Peer Request Flash Survey on Audit Committee Executive Sessions – February 2016
Best Practices
1000: Purpose, Authority, and Responsibility
1100: Independence and Objectivity
1110: Organizational Independence
1111: Direct Interaction with the Board
1300: Quality Assurance and Improvement Plan
2020: Communication and Approval
2060: Reporting to Senior Management and the Board
2420: Quality of Communications
2440: Disseminating Results
2600: Resolution of Senior Management’s Acceptance of Risks
Best Practices in Audit Committee Reporting

- Define What Is Valuable
- Use Your Knowledge
- Provide Comparative Information
- Determine the Right Amount of Information
- Cover Strategic Issues and Risk Exposures
- Combined Reporting with Other Risk and Control Functions
- Ongoing and Frequent Communication

www.theiia.org/sites/auditchannel/
The Mutual Relationship Between the Audit Committee and Internal Audit Function

- **Audit Committee**
  - Communicate analysis and audit findings.
  - Articulate objectives and provide oversight of internal audit.
  - Manually determine important risks and objectives for the audit function.
  - Support independence, competence, and budget for internal audit.

- **Internal Audit Function**
  - Build a highly competent internal audit function aligned with corporate governance needs.

Key Areas of Focus

- Cybersecurity
- Data Analytics
- Risk Management
- Global Compliance
Characteristics of Effective Audit Committees

- **Effective Governance**
  - Audit Committee Charter – Roles and Responsibilities
  - Independent
  - Ethical - tone at the top

- **Right combination of skills and experiences**
  - Qualified, educated and trained
  - Strategically focused leaders
  - Diverse and varied skill set
  - Proactive, challenging
  - Understand internal controls and financial reporting

- **Communication**
  - Emerging risks in a changing environment
  - Enterprise risks: strategic, operational, financial, external, etc.
  - Executive sessions
  - Internal Audit’s role as a trusted advisor
  - Effective and continuous interaction and communication with internal and external auditors
  - Valuable meeting information

- **Continuous improvement**
  - Self-assessment, review, evaluations
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