



UNIVERSITY OF TOLEDO

INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL

CURRENT AS OF January 21, 2025

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Contents

Section I: Purpose of Internal Auditing

Section II: Ethics and Professionalism

Subsection 1 Demonstrate Integrity

Procedure 1.1 Honesty and Professional Courage

Procedure 1.2 University's Ethical Expectations

Procedure 1.3 Legal and Ethical Behavior

Subsection 2 Maintain Objectivity

Procedure 2.1 Individual Objectivity

Procedure 2.2 Safeguarding Objectivity

Procedure 2.3 Disclosing Impairments to Objectivity

Subsection 3 Demonstrate Competency

Procedure 3.1 Competency

Procedure 3.2 Continuing Professional Development

Subsection 4 Exercise Due Professional Care

Procedure 4.1 Conformance with the Global Internal Audit Procedures

Procedure 4.2 Due Professional Care

Procedure 4.3 Professional Skepticism

Subsection 5 Maintain Confidentiality

Procedure 5.1 Use of Information

Procedure 5.2 Protection of Information

Section III: Governing the Internal Audit Function

Subsection 6 Authorized by the Board

Procedure 6.1 Internal Audit Mandate

Procedure 6.2 Internal Audit Charter

Procedure 6.3 Board and Senior Management Support

Subsection 7 Positioned Independently

Procedure 7.1 University Independence

Procedure 7.2 Chief Audit Executive Qualifications

Subsection 8 Overseen by the Board

Procedure 8.1 Board Interaction

Procedure 8.2 Resources

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 8.3 Quality

Section IV: Managing the Internal Audit Function

Subsection 9 Plan Strategically

Procedure 9.1 Understanding Governance, Risk Management, and Control Processes

Procedure 9.2 Internal Audit Strategy

Procedure 9.3 Methodologies

Procedure 9.4 Internal Audit Plan

Procedure 9.5 Coordination and Reliance

Subsection 10 Manage Resources

Procedure 10.1 Financial Resource Management

Procedure 10.2 Human Resources Management

Procedure 10.3 Technological Resources

Subsection 11 Communicate Effectively

Procedure 11.1 Building Relationships and Communicating with Stakeholders

Procedure 11.2 Effective Communication

Procedure 11.3 Communicating Results

Procedure 11.4 Errors and Omissions

Procedure 11.5 Communicating the Acceptance of Risks

Subsection 12 Enhance Quality

Procedure 12.1 Quality Assessment

Procedure 12.2 Performance Measurement

Procedure 12.3 Oversee and Improve Engagement Performance

Section V: Performing Internal Audit Services

Subsection 13 Plan Engagements Effectively

Procedure 13.1 Engagement Communication

Procedure 13.2 Engagement Risk Assessment

Procedure 13.3 Engagement Objectives and Scope

Procedure 13.4 Evaluation Criteria

Procedure 13.5 Engagement Resources

Procedure 13.6 Work Program

Subsection 14 Conduct Engagement Work

Procedure 14.1 Gathering Information for Analyses and Evaluation

Procedure 14.2 Analyses and Potential Engagement Findings

Procedure 14.3 Evaluation of Findings

Procedure 14.4 Recommendations and Action Plans

Procedure 14.5 Engagement Conclusions

Procedure 14.6 Engagement Documentation

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Subsection 15 Communicate Engagement Results and Monitor Action Plans

Procedure 15.1 Final Engagement Communication

Procedure 15.2 Confirming the Implementation of Recommendations or Action Plans

Section I: Purpose of Internal Auditing

The purpose statement assists internal auditors and internal audit stakeholders in understanding and articulating the value of internal auditing.

.....

Purpose Statement

Internal auditing strengthens the University's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the University's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- There is an independent positioning of the internal audit function with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

Section II: Ethics and Professionalism

Conformance with these subsections and procedures instills trust in the profession of internal auditing, creates an ethical culture within the internal audit function, and provides the basis for reliance on internal auditors' work and judgment.

All internal auditors must conform with the procedures of ethics and professionalism. If internal auditors must abide by other codes of ethics, behavior, or conduct, such as those of the University, Internal Audit still expects conformance with the subsections and procedures of ethics and professionalism contained herein. Not mentioning a particular behavior in these subsections and procedures does not preclude it from consideration as unacceptable or discreditable.

While internal auditors are responsible for their own conformance, the chief audit executive must support and promote conformance with the subsections and procedures in the Ethics and Professionalism section by providing opportunities for training and guidance. The chief audit executive may choose to delegate certain responsibilities for managing conformance but retains accountability for the ethics and professionalism of the internal audit function.

.....

Subsection 1 Demonstrate Integrity

Internal auditors demonstrate integrity in their work and behavior.

Integrity is behavior characterized by adherence to moral and ethical subsections, including demonstrating honesty and the courage to act based on relevant facts, even when facing pressure to do otherwise, or when doing so might create potential adverse personal or University consequences. In simple terms, internal auditors must tell the truth and do the right thing, even when it is uncomfortable or difficult.

Integrity is the foundation of the other subsections of ethics and professionalism, including objectivity, competency, due professional care, and confidentiality. The integrity of internal auditors is essential to establishing trust and earning respect.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 1.1 Honesty and Professional Courage

Internal auditors will enhance their awareness and understanding of honesty and professional courage by seeking opportunities to obtain ethics-related continuing professional education. While education helps create awareness in hypothetical situations, workplace training, mentorship, and supervision allow internal auditors to learn and practice skills such as tact and respectful communication, needed to apply professional courage effectively in real situations. When internal auditors encounter situations that challenge their honesty or professional courage, they will discuss the circumstances with a supervisor to determine the best course of action.

To support internal auditors, the chief audit executive will arrange opportunities for education and training as well as discussions of hypothetical and real situations that require making ethical choices. Effective management of the internal audit function includes proper engagement supervision and periodic reviews of internal auditors' performance. For example, when approving work programs or reviewing engagement workpapers, an engagement supervisor will provide appropriate guidance to help internal auditors address situations (potential or encountered) that could pose a threat to their honesty and integrity. As part of evaluating internal auditors' performance, the chief audit executive will solicit feedback about their honesty and professional courage from the stakeholders with whom internal auditors interact.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 1.2 University's Ethical Expectations

A code of ethics, code of conduct, and policies related to professional behavior and ethical conduct document the University's ethical expectations. Such policies, along with the University's objectives and processes for promoting its ethics and values, provide the basis for an ethical culture.

The internal audit plan will include assessments of the University's ethics-related risks to determine whether existing policies and control processes adequately and effectively address those risks. For example, the University's policies specify the criteria and process for handling and communicating about ethics-related issues, the parties that will receive the communication, and the protocol for escalating unresolved issues.

The chief audit executive will also determine a methodology for addressing ethical issues and discuss the methodology with the board and senior management to ensure alignment of the approaches.

Internal auditors will consider ethics-related risks and controls during individual engagements. If internal auditors identify behavior within the University that is inconsistent with the University's ethical expectations, they will communicate the concerns according to the methodology established by the chief audit executive, which considers the University's policies and processes as well as laws and/or regulations.

If internal auditors determine that a member of senior management has behaved in a manner that is inconsistent with the University's ethical expectations — whether documented in a code of conduct, code of ethics, or otherwise — the chief audit executive will report the violation to the board. If an ethics-related concern involves the chair of the board, the chief audit executive will report the concern to the entire board. Internal auditors will follow up on ethics-related issues involving the board or senior management and validate that process owners take appropriate actions to address the concern.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 1.3 Legal and Ethical Behavior

If University policies are not sufficiently specific to address the situations that the internal audit function encounters, then the chief audit executive will develop and implement a methodology that specifies the actions internal auditors must take in response to legal or regulatory violations of which they become aware. The methodology will include a procedure for validating that process owners took adequate actions to address the violation.

The chief audit executive will establish a methodology to ensure the proper supervision of internal auditors that behave in alignment with ethical and professional values.

Examples of discreditable behaviors include:

- Bullying, harassment, or discrimination.
- Lying, deceiving, or intentionally misleading others, including misrepresenting one's competency or qualifications (such as claiming to hold an active certification or active credentials).
- Intentionally issuing false reports or communications or allowing or encouraging others to do so, including minimizing, concealing, or omitting internal audit findings, conclusions, or ratings from engagement reports or overall assessments.
- Overlooking illegal activities that the University will tolerate or condone.
- Soliciting or disclosing confidential information without proper authorization.
- Performing internal audit services with undeclared impairments to objectivity or independence.
- Failing to accept responsibility for mistakes.

Subsection 2 Maintain Objectivity

Internal auditors maintain an impartial and unbiased attitude when performing internal audit services and making decisions.

Objectivity is an unbiased mental attitude that allows internal auditors to make professional judgments and fulfill their responsibilities without compromise. An independently positioned internal audit function supports internal auditors' ability to maintain objectivity.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 2.1 Individual Objectivity

Objectivity means internal auditors perform their work without compromise or subordination of judgment to others. The policies established and training arranged by the chief audit executive, support objectivity by providing requirements, procedures, and guidance that set forth a systematic and disciplined approach for gathering and evaluating information to provide a balanced assessment of the activity under review. Training helps internal auditors to better understand objectivity-impairing scenarios and how best to address them.

Making objective assessments requires an impartial mindset, free from bias and undue influence, which is essential to providing objective assurance and advice to the board and senior management. Internal auditors will develop awareness of the ways in which situations, activities, and relationships will affect their ability to be objective.

Internal auditors will consider the human tendency to misinterpret information or make assumptions or mistakes, which impairs the ability to evaluate information and evidence objectively.

Examples of biases include:

- Self-review bias – lack of critical perspective when reviewing one’s own work, which will lead to overlooking mistakes or shortcomings.
- Familiarity bias – making assumptions based on past experiences, which will compromise professional skepticism.
- Prejudice or unconscious bias – misinterpretation of information, based on predisposed ideas about culture, ethnicity, gender, ideology, race, or other characteristics, which will cause inaccurate judgments.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 2.2 Safeguarding Objectivity

Objectivity is impaired when situations, activities, or relationships influence internal auditors' judgments and decisions in a way that will change internal audit findings and conclusions. Impairments on objectivity will exist, in fact or appearance, even when they are unintended. Others will perceive objectivity to be impaired, even when no impairment has occurred in fact. Internal auditors will apply judgment regarding additional circumstances that will impair objectivity.

Conflicts of interest are situations in which an internal auditor has a competing professional or personal interest that will make it difficult to fulfill internal audit duties impartially. Conflicts of interest will create the appearance of impropriety that could undermine the confidence in an internal auditor, the internal audit function, and the internal audit profession, even if no unethical or improper acts result.

Examples of conflicts of interest include situations, activities, and relationships that will, in fact or appearance:

- Oppose or compete with the interests of the University.
- Create the potential for undue financial or other personal gain.
- Established solely to protect oneself from potential or actual loss or harm.
- Be nepotistic or provide favoritism to certain individuals.

The internal audit function's methodologies specify the expectations and requirements for internal auditors related to:

- Receiving gifts, favors, and rewards.
- Identifying situations that will impair objectivity.
- Responding appropriately upon becoming aware of impairment.

The University has a policy related to the acceptance of gifts, rewards, and favors, such as a policy limiting the value for accepting gifts. Because of the importance of objectivity in the practice of internal auditing, the chief audit executive has a policy that is more restrictive than that of the University. Internal auditors will follow the more restrictive policy and carefully consider whether a third party will perceive accepting a gift, reward, or favor to affect their judgment, or in exchange for producing favorable internal audit findings, conclusions, or results.

The policies of the University and the internal audit function prohibit specific activities or relationships that could create conflicts of interest. Internal auditors will be aware that close personal relationships outside work and relationships involving financial ties, such as investments, will be or appear to be conflicts of interest.

The chief audit executive will take precautions to reduce the potential impairments to objectivity that will result from the design of performance evaluations and remuneration arrangements, bonuses, and incentives. Examples of remuneration arrangements that will impair objectivity include:

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- Basing performance evaluations and remuneration primarily on surveys of or input from the management of the activity under review.
- Measuring performance against the number of findings identified during engagements, the revenue growth of the activity under review, or the cost savings or job eliminations imposed upon the activity under review.
- Allowing management to provide indirect compensation in the form of gifts and gratuities.

Internal auditors will apply their understanding of objectivity and relevant policies and procedures to evaluate whether any situations, activities, or relationships will impair their objectivity. Internal Audit will consider the perceptions of other people.

The requirements for staffing and supervising engagements are intended to ensure that the internal auditors assigned to an engagement were not recently responsible for any aspect of the activity under review, which may bias their view, give them a vested interest in a particular outcome, or create the perception or appearance that their objectivity is impaired. For each engagement, the internal auditors performing and supervising the engagement will be independent from the activity under review.

When planning resources for an engagement, the chief audit executive or a designated supervisor will discuss the engagement with internal auditors to identify any current or potential impairments to objectivity.

The discussion will include consideration of any impairments previously disclosed. As part of the process of supervising engagements, supervisors will review workpapers to ensure the adequate support of findings and conclusions. Engagement supervision also provides opportunities for more experienced internal auditors to provide feedback and mentoring regarding potential objectivity concerns. (See also Procedures 12.3 Oversee and Improve Engagement Performance and 13.5 Engagement Resources.) If impairment is unavoidable, internal auditors will disclose and mitigate it as described in Procedure 2.3 Disclosing Impairments to Objectivity.

Procedure 2.3 Disclosing Impairments to Objectivity

The internal audit function's methodologies define the requirements for disclosing impairments to objectivity and describe the actions to take to address each impairment to objectivity. The general approach to disclosing and mitigating impairments to objectivity is typically determined by the chief audit executive in agreement with the board and senior management.

If the chief audit executive cannot avoid impairment of objectivity, s/he will consider options to manage the impairment, including:

- Reassigning internal auditors to remove the impaired internal auditor from the engagement.
- Rescheduling an engagement to ensure proper staffing.
- Adjusting the scope of an engagement.
- Outsourcing the performance or supervision of the engagement.

When a concern arises during engagement planning that relates solely to the perception of an impairment, the chief audit executive will discuss the concern with the management of the activity under review and/or senior management, explain why the risk exposure is minimal and how it will be managed, and document the discussion and the final decision about how to proceed.

Procedure 7.1 University Independence provides additional requirements and information related to the chief audit executive assuming roles or responsibilities beyond internal auditing.

Subsection 3 Demonstrate Competency

Internal auditors apply the knowledge, skills, and abilities to fulfill their roles and responsibilities successfully.

Demonstrating competency requires developing and applying knowledge, skills, and abilities to provide internal audit services. Because internal auditors provide a diverse array of services, the competencies needed by each internal auditor vary. In addition to possessing or obtaining the competencies needed to perform services, internal auditors improve the effectiveness and quality of services by pursuing professional development.

Procedure 3.1 Competency

Internal auditors will develop competencies related to:

- Communication and collaboration.
- Governance, risk management, and control processes.
- Business functions, such as fiscal management and information technology.
- Pervasive risks, such as fraud.
- Tools and techniques for gathering, analyzing, and evaluating data.
- The risks and potential impacts of various economic, environmental, legal, political, and

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

social conditions.

- Laws, regulations, and practices relevant to the University, sector, and industry.
- Trends and emerging issues relevant to the University and internal auditing.
- Supervision and leadership.

To develop and demonstrate competencies, internal auditors will:

- Obtain appropriate professional credentials, such as the Certified Internal Auditor designation and other certifications and credentials.
- Identify opportunities for improvement and competencies that need development, based on feedback provided by stakeholders, peers, and supervisors.
- Seek relevant training not only in internal audit methodologies but also in business activities relevant to the University. Training opportunities will include enrolling in courses, collaborating with a mentor, or the assignment of new tasks under supervision during an engagement.

While internal auditors are responsible for ensuring their individual professional development and will assess their own skills and opportunities for development, the chief audit executive will support the professional development of internal auditors. The chief audit executive has established minimum expectations for professional development and will encourage the pursuit of professional qualifications. The chief audit executive will include funding for training and professional development in the internal audit budget and provide opportunities internally as well as externally, through continuing professional education, training, and conferences. (See also Procedures 10.1 Financial Resource Management and 10.2 Human Resources Management.)

To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the chief audit executive will:

- Maintain knowledge of internal auditors' competencies used when assigning work, identifying training needs, and recruiting internal auditors to fill open positions.
- Participate in the performance reviews of individual internal auditors.
- Identify areas to improve the competencies of the internal audit function.
- Encourage internal auditors' intellectual curiosity and invest in training and other opportunities to improve internal audit performance.
- Understand the competencies of other providers of assurance and advisory services and consider relying upon those providers as a source of additional or specialty competencies not available within the internal audit function.
- Consider contracting with an independent, external service provider when the internal audit function collectively does not possess the competencies to perform requested services.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 3.2 Continuing Professional Development

Continuing professional development includes self-study, on-the-job training, opportunities to gain experience with new skills on special assignments (such as rotational programs), mentorship, supervisory feedback, and free and paid education. To improve the quality of performing internal audit services, internal auditors will seek opportunities to gain experience about trends and best practices as well as emerging topics, risks, trends, and changes that will affect the organizations for which they work and the internal audit profession.

Internal auditors are responsible for developing their competencies and will seek opportunities to gain experience. However, the chief audit executive is responsible for the competencies of the internal audit function and will budget and plan for opportunities to train and educate internal audit staff. For example, internal auditors can develop new knowledge when properly supervised and assigned to engagements involving processes or areas with which they have had limited experience. Internal auditors will seek and welcome opportunities for supervision and mentorship through which they can receive robust feedback, guidance, and insight.

Multiple professional credentials require a minimum number of hours of continuing professional education within specific periods, such as annually. The chief audit executive will implement a plan that requires internal auditors to obtain specific types and quantities of continuing professional education.

Internal auditors possessing credentials, such as the Certified Internal Auditor designation, will be aware of the specific requirements of the certifying body's policy for maintaining their credentials. Failing to fulfill such requirements will result in consequences, including jeopardizing internal auditors' permission to use the credentials. All internal auditors will develop a plan and schedule for ongoing training and education.

As part of the required continuing professional education, professional auditing organizations frequently require holders of their certifications to complete ethics training. While their certifications specifically link this requirement, all internal audit professionals will obtain ethics-focused continuing professional education or training regularly.

News service subscriptions, webinars, and professional events provide internal auditors with opportunities to stay abreast of current developments in the internal audit profession and industries relevant to the University. Training may introduce innovative technology or changes in internal audit practices.

Professional development initiatives will include a regular review and assessment of internal auditors' career paths and needs for professional development. The chief audit executive will ensure plans and budgets for training reflect a balance between investing in developing the competencies of the internal audit function as a whole and providing internal auditors with opportunities to achieve their individual goals to grow professionally.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Subsection 4 Exercise Due Professional Care

Internal auditors apply due professional care in planning and performing internal audit services.

The procedures that embody exercising due professional care require that:

- Consideration of the nature, circumstances, and requirements of the work performed.
- Application of professional skepticism to critically assess and evaluate information.

Due professional care requires planning and performing internal audit services with the diligence, judgment, and skepticism possessed by prudent and competent internal auditors. When exercising due professional care, internal auditors perform in the best interests of those receiving internal audit services but are fallible.

Procedure 4.1 Conformance with the *Global Internal Audit Standards*

The chief audit executive will review the *Standards* when changes occur and align the internal audit function's methodologies accordingly. If inconsistencies exist between the *Standards* and requirements issued by other authoritative bodies, internal auditors and the internal audit function must or will choose to conform with the more stringent requirements.

The chief audit executive or a designated engagement supervisor will ensure that engagement work programs align with the requirements of the *Procedures* and the conducting of internal audit engagements in accordance with the *Procedures*' requirements.

While the University expects conformance with the requirements, internal auditors or the internal audit function will occasionally be unable to conform with a requirement yet will take alternative actions to achieve the related subsection. Such circumstances are usually related to specific authorities. By documenting the circumstance, alternative actions taken, the impact, and the rationale, the chief audit executive provides information that the internal audit function will be able to achieve conformance with a subsection, even when conformance with a procedure is not possible.

If internal auditors are unable to conform with a standard when performing an internal audit engagement, they will discuss with the chief audit executive or a designated supervisor the reason for the nonconformance and the effect of the nonconformance on the engagement. The chief audit executive or supervisor will provide guidance regarding whom and how to communicate the nonconformance. (See Procedure 15.1 Final Engagement Communication.)

Additionally, laws, regulations, internal audit methodologies, and University policies will provide specifications for determining when and how to disclose nonconformance.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 4.2 Due Professional Care

To perform services with due professional care requires that internal auditors consider and understand the nature of the internal audit services provided. Internal auditors will start by understanding the internal audit charter, the internal audit plan, and the factors that help determine engagements included in the plan. When planning and performing internal audit services, internal auditors also consider the interests of the University's customers and other stakeholders (including the public) affected by the University's actions. Such interests include stakeholders' expectations (such as fair and honest business practices), needs (such as safety), and potential exposure to underlying risks that will not be obviously related to the University's strategy and objectives.

The considerations in due professional care comprise the circumstances and aspects of risk that the chief audit executive must consider when performing the risk assessment on which the internal audit plan is based. Relevant circumstances include the University's strategy and objectives and the adequacy and effectiveness of the University's governance, risk management, and control processes.

Additionally, internal auditors consider these circumstances relative to an activity under review during engagement planning, as described in Section V: Performing Internal Audit Services. The complexity, materiality, and significance of risks evaluated is relative. A risk may not be material or significant to the University but may be material or significant in an engagement or to an activity under review.

Thus, understanding the complexity, materiality, and significance in context is necessary to accurately assess relevant risks and determine which risks to prioritize for further evaluation.

Due professional care also requires weighing the costs (such as resource requirements) of the internal audit services against the benefits that will result. For example, if management did not adequately design the controls in an activity under review, the benefits of fully evaluating the effectiveness of those controls are not likely to be worth the cost. Internal auditors seek to provide the most value or benefit for the University's investment in internal audit services. Additionally, thorough planning requires internal auditors to consider the techniques, tools, technology, and extent and timeliness of work needed to achieve the engagement objectives most efficiently. Internal auditors, especially the chief audit executive, will consider the use of data analysis software and other technology that supports the review and evaluation processes.

Proper engagement supervision and a quality assurance and improvement program promote due professional care. (See Procedures 8.3 Quality and Subsection 12 Enhance Quality and its procedures.)

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 4.3 Professional Skepticism

Professional skepticism enables internal auditors to make objective judgments based on facts, information, and logic, rather than trust or belief. Skepticism is the attitude of always questioning or doubting the validity and truthfulness of claims, statements, and other information. Internal auditors apply professional skepticism when they seek evidence to support and validate statements made by management, rather than simply trusting the information presented as true or genuine without question or doubt. Professional skepticism requires curiosity and the willingness to explore beyond the surface level of a given topic.

When gathering and analyzing information, internal auditors will apply professional skepticism to determine whether information is relevant, dependable, and sufficient. If internal auditors determine that information is incomplete, inconsistent, false, or misleading, they will perform additional analyses to identify the correct and complete information needed to support engagement results. The review and approval of workpapers and/or engagement communications by the chief audit executive or a designated engagement supervisor provides additional validation.

The chief audit executive will help internal auditors build their competency related to professional skepticism. Workshops and other training opportunities can help internal auditors develop and learn to apply professional skepticism and understand the importance of avoiding bias and maintaining an open and curious mindset. Internal auditors can learn to recognize information that is inconsistent, incomplete, false, and/or misleading.

Subsection 5 Maintain Confidentiality

Internal auditors use and protect information appropriately.

Because internal auditors have unrestricted access to the data, records, and other information necessary to fulfill the internal audit mandate, they often receive information that is confidential, proprietary, and/or personally identifiable. (See also Subsection 6 Authorized by the Board and its procedures.) This includes information in physical and digital form as well as information derived from oral communication, such as formal or informal meeting discussions. Internal auditors must respect the value and ownership of information they receive by using it only for professional purposes and protecting it from unauthorized access or disclosure, internally and externally.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 5.1 Use of Information

Internal auditors have unrestricted access to information to enable them to provide internal audit services without interference. However, using and handling information appropriately is the responsibility of every internal auditor. The inappropriate use and handling of information that is confidential, proprietary, and/or personally identifiable will have unintended consequences, such as reputational damage and fines for violating laws and/or regulations.

The policies and procedures of the University and the internal audit function govern internal auditors' handling and use of information throughout their lifecycle, from its point of access to its collection, storage, and/or destruction. Additionally, internal auditors will be aware of and compliant with any policies and procedures related to the third-party information they will access.

The chief audit executive will discuss with internal auditors the policies, procedures, and expectations related to the appropriate use of information to which they have access. The chief audit executive will require internal auditors to acknowledge their understanding through signed attestations or other formats.

When managing sensitive and/or personal data, the internal audit function will apply appropriate digital security measures. Examples include automated controls such as passwords and encryption.

Examples of misusing information include using, selling, or releasing insider financial, strategic, or operational knowledge of the University to inform decisions to purchase or sell investments or to create a competitive service.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 5.2 Protection of Information

Laws, regulations, and the policies and procedures of the University and the internal audit function protect the information acquired, used, and produced by the internal audit function and cover physical and digital security and access, retention, and disposal of information.

The chief audit executive will consult with legal counsel to better understand the impact of legal and/or regulatory requirements and protections (for example, legal privilege or attorney-client privilege). The University's policies and procedures require that specific authorities review and approve business information before external release.

Internal Audit will monitor information access to verify the conformance with methodologies. Internal Audit will protect information from intentional or unintentional disclosure through controls such as data encryption, password protection, email distribution, restrictions on the use of social media, and restrictions on physical access. When internal auditors no longer need access to the data, the University will revoke digital permissions, and established methodologies will govern the management of printed copies.

Examples of confidential information protected from disclosure include individual salaries and records of personnel issues.

The chief audit executive will periodically assess and confirm internal auditors' needs for access to information and whether access controls are working effectively.

Section III: Governing the Internal Audit Function

Appropriate governance arrangements are essential to enable the internal audit function to be effective. This section outlines the requirements for the chief audit executive to work closely with the board to establish the internal audit function, position it independently, and oversee its performance. This section also outlines senior management’s responsibilities that support the board’s responsibilities and promote strong governance of the internal audit function.

While the chief audit executive is responsible for the requirements in this section, activities of the board and senior management are essential. These activities are “essential conditions” in each procedure and establish a necessary foundation for an effective dialogue between the board, senior management, and the chief audit executive, enabling an effective internal audit function.

.....

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Meeting with the Board and Senior Management

The chief audit executive must discuss this section with the board and senior management. The discussions will focus on:

- The Purpose of Internal Auditing as articulated in Section I: Purpose of Internal Auditing.
- The essential conditions outlined under each of the procedures in Section III: Governing the Internal Audit Function.
- The potential impact on the effectiveness of the internal audit function if the board or senior management does not provide the support outlined in the essential conditions.

The discussions inform the board and senior management about the importance of the essential conditions and to gain alignment among their respective responsibilities.

The nature and frequency of these discussions depend on the circumstances and changes in the University. For example, the chief audit executive will discuss these essential conditions with the board and senior management if:

- The Procedures change significantly, or the University creates a new internal audit function.
- The chief audit executive is new to the role or to the University.
- There are significant changes in the relationship between the board and the chief audit executive, such as a new chairperson to whom the chief audit executive reports or a change in the structure or composition of the board that affects this reporting relationship.
- There are significant changes in the structure or composition of senior management that affect the chief audit executive's positioning within the University.

It is important for the chief audit executive to receive input from both the board and senior management. While the board has the ultimate responsibility to approve the internal audit mandate, charter, and other requirements outlined in this section, senior management typically has a key role in providing input to the board and the chief audit executive. Senior management's perspective is valuable and helps support the internal audit function's positioning and authority in the University.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Disagreements on Essential Conditions

If either the board or senior management disagrees with one or more of these essential conditions, the chief audit executive must emphasize – with examples – how absence of the condition(s) will affect the internal audit function’s ability to fulfill its purpose or conform with specific procedures. The chief audit executive will also discuss alternatives to the essential conditions that will provide the same results.

The chief audit executive will reach agreement with the board and senior management that one or more of the essential conditions are not necessary to conform with the Procedures. In such instances, the chief audit executive must document:

- The reasons for agreeing that a particular condition is unnecessary.
- Alternative conditions that compensate for the absent conditions, to support the judgments of the board and senior management.

If the chief audit executive does not agree with the board’s and/or senior management’s reasons for not performing one or more of the conditions, the chief audit executive will conclude that the internal audit function cannot conform with the Procedures. In such cases, the chief audit executive will document the reasons why the board and/or senior management will not perform the essential conditions. The chief audit executive will share this documentation with the board and senior management to ensure clarity regarding their positions.

If the chief audit executive position is open for any reason, the board will appoint one or more individuals in the interim.

Definition of Board

For the purposes of this document, the term “board” is the highest-level body charged with governance, such as:

- An audit committee.
- A board of trustees.
- A group of elected officials or political appointees.
- Another body that has authority over the relevant governance functions.

“Board” refers to the body or bodies authorized to provide the internal audit function with the appropriate authority, role, and responsibilities.

“Board” also refers to the group or person that acts as the University’s highest-level governing body. Examples include the head of the University and senior management.

The chief audit executive will document the governing structure to which the internal audit function reports and how this structure is consistent with the definition of board. This will include environments where multiple boards exist, sometimes found in multi-national organizations or the public sector, or where a multi-tiered structure is in place.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Application of this Section

The Procedures apply to individuals and functions that provide internal audit services. People within or outside the University for universities that vary in purpose, size, complexity, and structure will provide internal audit services. The Procedures apply whether the University employs internal auditors directly, contracts them through an external service provider, or both. One or more individuals designated by the board will perform the chief audit executive's responsibilities. The chief audit executive, whether employed directly by the University or through an external service provider, is responsible for conformance with the Procedures. In all cases, the board retains the responsibility to support and oversee the internal audit function.

Subsection 6 Authorized by the Board

The board establishes, approves, and supports the mandate of the internal audit function.

The internal audit function receives its mandate from the board (and applicable law). The mandate specifies the authority, role, and responsibilities of the internal audit function, documented in the internal audit charter. The mandate empowers the internal audit function to provide the board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function conducts the mandate by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes throughout the University.

Procedure 6.1 Internal Audit Mandate

The chief audit executive informs the board and senior management about the characteristics of an effective internal audit function by sharing knowledge about the Procedures, relevant laws and/or regulations, and the results of research into leading practices of internal audit functions.

The chief audit executive will discuss with the board and senior management the internal audit mandate and other key considerations in the internal audit charter, focusing on helping the board and senior management to understand:

- **Authority** – Its direct reporting relationship to the board creates the internal audit function's authority. Such authority allows for free and unrestricted access to the board, as well as all activities across the University (for example, records, personnel, and physical property).
- **Role(s)** – The primary role of the internal audit function is to conduct internal audit activities and deliver internal audit services. There will be situations where roles beyond internal auditing are part of the chief audit executive's responsibilities, such as risk management or compliance. Procedure 7.1 University Independence further discusses these non-audit roles.
- **Responsibilities** – An internal audit function's responsibilities comprise its accountability and obligations to conduct its role(s), as well as the specific expectations of key stakeholders. For example, responsibilities typically include expectations regarding performance of audit services; communications; compliance with laws, regulations, and policies; and other

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

activities incumbent in the role.

- Scope – The scope of internal audit services covers the entire breadth of the University for which the internal audit function is responsible for providing services. This will include all activities, assets, and personnel of the University or a subset according to geography or other division. The scope will specify the nature of internal audit services (for example, assurance only or assurance and advisory, focus on financial statements, compliance with laws and/or regulations), or specify other limitations on the coverage of internal audit services.
- Internal audit services – Internal audit services are assurance and advisory services, but is also more specifically performance auditing, assurance regarding internal controls over financial reporting, and investigations.

Circumstances may justify a follow-up discussion with the board and senior management on the internal audit mandate or other aspects of the internal audit charter. These conditions will include:

- ✓ A significant acquisition or reorganization within the University.
- ✓ Significant changes in the board and/or senior management.
- ✓ Significant changes to the University's strategies, objectives, risk profile, or the environment in which it operates.
- ✓ New laws or regulations that will affect the nature and/or scope of internal audit services.

These conditions will arise at any point during the year. However, the chief audit executive will formally consider any such changes at least annually.

The chief audit executive coordinates with the University's assurance providers and advises the board regarding how other functions will contribute to the internal audit mandate. By helping the board understand the roles and responsibilities of other internal and external assurance providers and regulators, the chief audit executive provides clarity about an appropriate internal audit mandate. (See also Procedure 9.5 Coordination and Reliance.)

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 6.2 Internal Audit Charter

Procedures 6.1 Internal Audit Mandate and 7.1 University Independence outline key requirements for the internal audit charter.

The internal audit charter describes administrative reporting responsibilities, such as the processes for:

- Approving the internal audit function's human resources administration and budgets.
- Approving the chief audit executive's expenses.
- Reviewing the chief audit executive's performance.

Where laws or regulations specify the reporting relationship, the charter will include references to such documents. If laws and/or regulations comprehensively cover the requirements for a charter, they will substitute for the formal charter.

While there are models for an internal audit charter, the chief audit executive will customize the internal audit charter to address the unique University aspects that affect the internal audit mandate, scope, and internal audit services.

The chief audit executive will present a final draft of the internal audit charter during a board meeting for discussion and approval.

The chief audit executive and the board will also agree on the frequency with which to review and reaffirm whether the charter's provisions continue to enable the internal audit function to accomplish its objectives. The leading practice is to review the charter periodically, reference it when questions about the internal audit mandate arise, and update it as needed.

Other topics for consideration in the charter will include:

- Safeguards to objectivity and independence, including processes for addressing potential impairments, and the frequency with which those safeguards are re-evaluated to ensure they are achieving the desired result. (See also Procedure 7.1 University Independence.)
- Unrestricted access, including how the internal audit function accesses the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.
- Communications, including the nature and timing of communicating with the board and senior management.
- Audit process, including any expectations regarding communications with management in the area under review (before, during, and after an engagement) and how to manage disagreements with management.
- Approval, including any circumstances specified by the board and senior management.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 6.3 Board and Senior Management Support

The board and the chief audit executive will meet at least annually without management present. Holding such meetings quarterly is a leading governance practice. Such meetings often occur as a private or closed session following a normally scheduled board meeting.

The chief audit executive will also have other interactions with the board between official meetings to keep the board apprised of the internal audit function's progress. Both parties will agree upon the types of information and the level of detail communicated by the chief audit executive to the board.

It is important that the chief audit executive report administratively to an individual in the University who can support the internal audit function's pursuit of the internal audit mandate. A leading practice is for the chief audit executive to report to the chief executive officer or equivalent.

While it is critical for the chief audit executive to meet privately with the board, the chief audit executive will inform senior management of such discussions, unless doing so is inappropriate (for example, if a private conversation relates to impropriety by a member of senior management).

The chief audit executive will work with senior management to understand each other's reporting requirements to the board to help enable timely, clear, and transparent reporting that is not redundant or conflicting. This helps the board exercise its oversight responsibilities and enables a collaborative working relationship between the chief audit executive and senior management.

The board's approval of the internal audit budget and resource plan is important as these demonstrate that the internal audit function has the resources necessary to complete its planned audit activities. The details provided to the board are subject to the judgment of the chief audit executive.

Subsection 7 Positioned Independently

The board establishes and protects the internal audit function's independence and qualifications.

The board is responsible for enabling the independence of the internal audit function. Independence is freedom from conditions that impair the internal audit function's ability to fulfill its responsibilities in an unbiased manner. The internal audit function is only able to fulfill the Purpose of Internal Auditing when the chief audit executive reports directly to the board, is qualified, and positioned at a level within the University that enables the internal audit function to discharge its services and responsibilities without interference.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 7.1 University Independence

Internal auditing is most effective when the internal audit function is directly accountable to the board (also known as “functionally reporting to the board”), rather than directly accountable to management for the activities over which it provides assurance and advice. A direct reporting relationship between the board and the chief audit executive enables the internal audit function to perform internal audit services and communicate engagement results without interference or undue limitations. Examples of interference include management failing to provide requested information in a timely manner and restricting access to information, personnel, or physical properties. Limiting budgets or resources in a way that interferes with the internal audit function’s ability to operate effectively is an example of undue limitation. (See also Procedure 11.3 Communicating Results.)

While the chief audit executive reports functionally to the board, the administrative reporting relationship is often to a member of management. This enables access to senior management, and the authority to challenge management’s perspectives. To achieve this authority, it is a leading practice for the chief audit executive to report administratively to the chief executive officer or equivalent, although reporting to another senior officer may achieve the same objective if the University implements appropriate safeguards. Subheads of the internal audit function will be able to communicate directly with the senior management responsible for those areas.

When evaluating whether independence is impaired, the chief audit executive will consider reporting relationships, roles, and responsibilities to determine whether actual, potential, or perceived impairments exist. Additionally, through discussions with the parties concerned, the chief audit executive may be able to resolve any situations of perceived impairment that do not in fact affect the internal audit function’s ability to perform its responsibilities independently.

Situations that will introduce impairments to independence include:

- The chief audit executive lacks direct communication or interaction with the board.
- Management attempts to limit the scope of the internal audit services previously approved by the board and documented in the internal audit charter.
- Management attempts to restrict access to the data, records, information, personnel, and physical properties required to perform the internal audit services.
- Management pressures internal auditors to suppress or change internal audit findings.
- The reduction of the budget for the internal audit function to a level that leaves the function unable to fulfill its responsibilities as outlined in the charter.
- An assurance engagement performed by the internal audit function or supervised by the chief audit executive in a functional area for which the chief audit executive is responsible, has oversight, or is otherwise able to exert considerable influence.
- The internal audit function performs, or the chief audit executive supervises, assurance services related to an activity managed by a senior executive (non-CEO) to which the chief audit executive reports administratively. For example, the chief audit executive reports to the chief financial officer and is responsible for auditing treasury, a function that also reports to the chief financial officer.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

In addition to the responsibilities of managing the internal audit function, the University sometimes asks the chief audit executive to take on non-audit roles that will impair or will appear to impair the internal audit function's independence. Examples include situations such as:

- A new regulatory requirement prompts an immediate need to develop controls and other risk management activities to ensure compliance.
- The chief audit executive has the most appropriate expertise in adapting existing risk management activities to a new business segment or geographic market.
- The University's resources are too constrained, or the University is too small to afford a separate compliance function.

When discussing non-audit roles and responsibilities with the board and senior management, the chief audit executive will identify appropriate safeguards depending on whether the roles are permanent or temporary and intended to transfer to management.

When the board agrees that an impairment has occurred, the chief audit executive will suggest to the board and senior management potential safeguards to manage the risks. It is also important to specify a timeline for transitioning temporary non-audit responsibilities to management.

The requirement is to have assurance activities overseen by an independent third party for the subsequent 12 months after the chief audit executive completes temporary responsibilities in that area. However, the chief audit executive will use judgment as there will be circumstances whereby the perception of impairment will exist for 12 months. The chief audit executive will discuss with the board and senior management whether 12 months is appropriate or not.

To determine the other parties to which to make disclosure of existing impairments, the chief audit executive will consider the nature of the impairment, the impact of impairment on the reliability of the results of internal audit services, and the expectations of relevant stakeholders. If a potential impairment of the internal audit function's independence is discovered after an engagement has been completed that will affect the reliability or perceived reliability of the engagement findings, recommendations, and/or conclusions, the chief audit executive will discuss the concern with the management of the activity under review, the board, senior management, and/or other affected stakeholders and determine the appropriate actions to resolve the situation. (See also Procedures 2.3 Disclosing Impairments to Objectivity and 11.4 Errors and Omissions.)

Before hiring a chief audit executive, the board will be involved in the recruitment and appointment process. For example, the board will discuss the qualifications and competencies necessary to lead the internal audit function and perform any additional roles and responsibilities expected by the University. Additionally, the board will consider reviewing candidates' résumés and participating in interviews before selecting a candidate.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 7.2 Chief Audit Executive Qualifications

The board collaborates with senior management to determine which competencies and qualifications the University expects in a chief audit executive. The competencies will vary according to the internal audit mandate, the complexity and specific needs of the University, the University's risk profile, and the industry and authority within which the University operates, among other factors. A job description typically documents the desired competencies and qualifications and includes:

- A comprehensive understanding of leading internal audit practices.
- Experience building and managing an effective internal audit function by recruiting, hiring, and training internal auditors and helping them develop relevant competencies.
- Certified Internal Auditor designation or other relevant professional education, certifications, and credentials.
- Leadership experience.
- Industry or sector experience.

While this list includes ideal competencies and qualifications, the chief audit executive may be selected for other qualities or areas of expertise that are supplemented by the competencies of other members of the internal audit function, especially when the chief audit executive has entered the position from a different role, industry, or sector. In such cases, the chief audit executive will collaborate with knowledgeable members of the internal audit function and network with others in the profession to gain relevant experience.

The board will review and approve the job description for the chief audit executive to ensure it reflects the expected qualifications and competencies.

The board will encourage the chief audit executive to pursue continuing professional education, membership in professional associations, professional certifications, and other opportunities for professional development. (See also Subsection 3 Demonstrate Competency and its procedures.)

Given the importance of the chief audit executive role, the University will develop a succession plan to identify internal or external candidates for replacing the chief audit executive. Such plans will align with the University's overall succession-planning process, and the chief audit executive will share them with the board and senior management.

Subsection 8 Overseen by the Board

The board oversees the internal audit function to ensure the function's effectiveness.

Board oversight is essential to enable the overall effectiveness of the internal audit function. Achieving this subsection requires collaborative and interactive communication between the board and the chief audit executive as well as the board's support in ensuring the internal audit function obtains sufficient resources to fulfill the internal audit mandate.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 8.1 Board Interaction

Providing the board with the information needed to exercise its oversight responsibilities requires two-way communication. The chief audit executive will use a variety of communication methods such as written and oral reports and presentations, formal meetings, and informal discussions. The chief audit executive will document the board's expectations formally in the internal audit methodologies. Periodically, the chief audit executive will confirm with the board that the frequency, nature, and content of communications meet the board's expectations and help the board achieve its oversight responsibilities.

The frequency of communication between the board and the chief audit executive will consider the need for timely communication about significant issues. The chief audit executive will seek information from the board about its perspectives and expectations related to understanding and oversight of not just financial risk management but also a broad range of nonfinancial governance and risk management concerns including, for example, strategic initiatives, cybersecurity, health and safety, sustainability, business resilience, and reputation.

To identify the issues the chief audit executive escalates beyond senior management, the chief audit executive will establish criteria outlining the significance or materiality that exceeds the risk tolerance. The criteria will link to a process for the chief audit executive to escalate communications from management to the board. Typically, the chief audit executive will discuss disagreements between him/her and senior management with them to ensure the information presented to the board is accurate and reflects management's perspective.

Typically, formal board meetings allow formal communication at least quarterly. Additionally, the chief audit executive and board members will communicate between meetings as needed, sometimes informally.

Procedure 8.2 Resources

To analyze the sufficiency of the resources necessary to fulfill the internal audit mandate and achieve the plan, the chief audit executive will perform a gap analysis between the resources available within the internal audit function and those needed to perform internal audit services. (See also Subsection 10 Manages Resources and its procedures.) The chief audit executive's strategy will provide a resource plan, which will include a budget request, and will consider options for staffing the internal audit function and using technology to perform services. This plan will also include a cost-benefit analysis of the various approaches to present to the board.

Although a discussion of resources between the board and the chief audit executive typically occurs at least annually in connection with the presentation of the internal audit plan, having a quarterly discussion is a leading practice. The discussion will include considering the options to achieve the desired internal audit coverage, including outsourcing or using guest auditors, as well as implementing technology to improve the internal audit function's efficiency and effectiveness.

Procedure 8.3 Quality

The chief audit executive's communications to the board and senior management regarding the internal audit function's quality assurance and improvement program will include:

- Action plans that address deficiencies and opportunities for improvement. The chief audit executive will seek agreement on the actions with the board.
- Progress toward completing the agreed-upon actions.
- An assessment of the internal audit function's quality will consider:
 - ✓ The level of contribution to the improvement of governance, risk management, and control processes.
 - ✓ Productivity of internal audit staff (for example, planned hours compared to actual hours on projects or time used on audit projects compared to administrative time).
 - ✓ Compliance with internal audit laws and/or regulations.
 - ✓ Cost efficiency of the internal audit processes.
 - ✓ Strength of relationships with senior management and other key stakeholders.
 - ✓ Other performance measures. (See also Procedure 12.2 Performance Measurement.)

Section IV: Managing the Internal Audit Function

The chief audit executive is responsible for managing the internal audit function in accordance with the internal audit charter. This includes strategic planning, obtaining, and deploying resources, building relationships, communicating with stakeholders, and ensuring and enhancing the performance of the function.

The individual responsible for managing the internal audit function will conform with the Procedures including performing the responsibilities described in this section whether the individual is directly employed by the University or contracted through an external service provider.

The chief audit executive may delegate appropriate responsibilities to other qualified professionals in the internal audit function but retains ultimate accountability.

The direct reporting relationship between the board and the chief audit executive enables the internal audit function to fulfill its mandate. (See also Procedure 7.1 University Independence.) In addition, the chief audit executive has an administrative reporting line to the highest-ranking person in senior management, such as the chief executive officer, supporting day-to-day activities and establishing the status and authority necessary to ensure consideration of the results of the internal audit services.

.....

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Subsection 9 Plan Strategically

The chief audit executive plans strategically to position the internal audit function to fulfill its mandate and achieve long-term success.

Planning strategically requires the chief audit executive to understand the internal audit mandate and the University's governance, risk management, and control processes. A properly resourced and positioned internal audit function develops and implements a strategy to support the University's success. In addition, the chief audit executive creates and implements methodologies to guide the internal audit function and develop the internal audit plan.

Procedure 9.1 Understanding Governance, Risk Management, and Control Processes

The chief audit executive develops his/her understanding by gathering information broadly and viewing it comprehensively. Sources of information include discussions with the board and senior management, reviews of board and senior management minutes and presentations, communications and workpapers from internal audit engagements, and assessments and reports completed by other providers of assurance and advisory services.

Understanding Governance Processes

The chief audit executive will be well informed about leading governance subsections, globally accepted governance frameworks and models, and professional guidance specific to the industry and sector. Based on this knowledge, the chief audit executive will identify whether the University has implemented any of these and will gauge the maturity of the University's governance processes. Unique University characteristics such as its type, size, complexity, structure, and process maturity as well as the legal and/or regulatory requirements to which the University is subject will affect the University's governance structure, processes, and practices.

The chief audit executive will review board and committee charters and agendas and minutes from their meetings to gain additional insight into the role the board plays in the University's governance, especially regarding strategic and operational decision-making.

The chief audit executive will speak with individuals in key governance roles (for example, the board chair, top elected or appointed official in a governmental organization, chief ethics officer, human resources officer, chief compliance officer, and chief risk officer) to gain a clearer understanding of the University's processes and assurance activities. The chief audit executive will review the reports and/or results of previously completed governance reviews, paying particular attention to any identified concerns.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Understanding Risk Management Processes

The chief audit executive will understand globally accepted risk management subsections, frameworks, and models as well as professional guidance specific to the industry and sector. The chief audit executive will gather information to assess the maturity of the University's risk management processes, including identifying whether the University has defined its risk appetite and implemented a risk management strategy and/or framework. Discussions with the board and senior management help the chief audit executive understand their perspectives and priorities related to the University's risk management.

To gather risk information, the chief audit executive will review recently completed risk assessments and related communications issued by senior and operational management, those charged with risk management, external auditors, regulators, and other internal and external providers of assurance services.

Understanding Control Processes

The chief audit executive will become familiar with globally accepted control frameworks and consider those used by the University. For each identified University objective, the chief audit executive will develop and maintain a broad understanding of the University's control processes and their effectiveness. The chief audit executive will develop a university-wide risk and control matrix to:

- Document identified risks that will affect the ability to achieve University objectives.
- Indicate the relative significance of risks.
- Understand key controls in university processes.
- Understand the controls reviewed for design adequacy and deemed to be operating as intended.

A thorough understanding of the University's governance, risk management, and control processes enables the chief audit executive to identify and prioritize opportunities to provide internal audit services that will enhance the University's success. The identified opportunities form the basis of internal audit strategy and plan.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 9.2 Internal Audit Strategy

To develop the vision and strategic objectives of the internal audit strategy, the chief audit executive will start by considering the University's strategy and objectives and the expectations of the board and senior management. The chief audit executive will also consider the types of services to perform, and the expectations of other stakeholders served by the internal audit function, as agreed in the charter.

The vision describes the desired future state — in the next three to five years, for example — of the internal audit function and provides direction to help the function fulfill its mandate. The chief audit executive designs the vision to inspire internal auditors to continuously improve. The strategic objectives define achievable targets to attain the vision. The supporting initiatives outline more specific tactics and steps for achieving each strategic objective.

One approach to developing a strategy is to identify and analyze the internal audit function's strengths, weaknesses, opportunities, and threats designed to determine ways to improve the function. Another approach is to perform a gap analysis between the current and the desired states of the internal audit function.

The initiatives supporting the strategy will include:

- Opportunities to help internal auditors develop their competencies.
- The introduction and application of technology that improves the internal audit function's efficiency and effectiveness.
- Opportunities to improve the internal audit function.

When the chief audit executive determines the strategic objectives and supporting initiatives, s/he will prioritize the actions to take and assign target dates.

The chief audit executive will adjust the internal audit strategy whenever changes occur in the University's strategic objectives or stakeholders' expectations. Factors that will prompt a more frequent review of the internal audit strategy include:

- Changes in the University's strategy or the maturity of its governance, risk management, and control processes.
- Changes in the University's policies and procedures or the laws and/or regulations to which the University is subject.
- Changes in members of the board, senior management, or the chief audit executive.
- Results of assessments of the internal audit function.

The chief audit executive will design a timeline for the implementation of the internal audit strategy and related performance measures. (See also Procedure 12.2 Performance Measurement.) A periodic review of the internal audit strategy will include a discussion of the internal audit function's progress on initiatives with the board and senior management.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 9.3 Methodologies

Methodologies will exist as individual documents (such as procedure operating procedures), or the chief audit executive will collect guidance for inclusion into an internal audit manual or integrated into internal audit management software. Internal audit methodologies supplement the Procedures by providing specific instructions and criteria that help internal auditors implement the Procedures and perform services with quality. Additionally, internal audit methodologies describe processes and procedures for communicating, managing operational and administrative matters, and overseeing the internal audit function. (See also Procedures 14.3 Evaluation of Findings, 14.5 Engagement Conclusions, and 15.2 Confirming the Implementation of Recommendations or Action Plans.)

Documented methodologies that are most likely to be necessary to implement the strategy, achieve the internal audit plan, and conform with Procedures include the internal audit function's approach to:

- Assessing risks for the University and for each engagement.
- Developing and updating the internal audit plan.
- Determining the balance between assurance and advisory engagements.
- Coordinating with internal and external assurance providers.
- Managing external service providers, when used.
- Performing internal audit engagements.
- Communicating during internal audit services.
- Retaining and releasing engagement records and other information, consistent with the University's guidelines and pertinent regulatory or other requirements.
- Monitoring and confirming the implementation of internal auditors' recommendations or management action plans.
- Assuring the quality and improvement of the internal audit function.
- Developing performance measurements to assess progress toward meeting objectives.
- Performing additional services identified in the internal audit mandate.

Assessments of the internal audit function's quality will include the effectiveness of the internal audit methodologies. Reasons for updating established methodologies include significant changes in professional internal audit procedures and guidance, legal and/or regulatory requirements, technology, and department size or composition. A change of the chief audit executive or board chair may also warrant the review and revision of internal audit methodologies.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 9.4 Internal Audit Plan

This procedure requires the completion of a university-wide risk assessment at least annually as the basis of the plan. However, the chief audit executive will keep continuously apprised of risk information, updating the risk assessment and internal audit plan accordingly. If the University's environment is dynamic, the internal audit plan will require updating as frequently as every six months, quarterly, or even monthly. The chief audit executive will consider the size, complexity, and type of changes occurring in the University relative to the maturity of the University's governance, risk management, and control processes when determining the appropriate level of effort to update the risk assessment.

One approach to preparing the internal audit plan is to organize potentially auditable units within the University into an audit universe to facilitate the identification and assessment of risks. An audit universe is most useful when it is based on an understanding of the University's objectives and strategic initiatives and aligned with the University's structure or risk framework. Auditable units will include business units, processes, programs, and systems. The chief audit executive will link those University units to key risks in preparation for a comprehensive risk assessment and the identification of assurance coverage throughout the University. This process enables the chief audit executive to prioritize the risks to evaluate further during internal audit engagements.

To strive to ensure that the audit universe and risk assessment cover the University's key risks, the internal audit function will independently review and validate the key risks identified within the University's risk management system. The internal audit function will only rely on management's information about risks if it has concluded that the University's risk management processes are effective.

To complete the University-wide risk assessment, the chief audit executive will consider objectives and strategies not just at the broad University level but also at the level of specific auditable units.

Additionally, the chief audit executive will consider risks — such as those related to ethics, fraud, information technology, third-party relationships, and noncompliance with regulatory requirements — tied to more than one business unit or process and will require more complex evaluation.

To support this risk assessment, the chief audit executive will gather information from recently completed internal audit engagements as well as discussions with members of the board and senior management. (See also Procedures 9.1 Understanding Governance, Risk Management, and Control Processes and 11.3 Communicating Results.) The chief audit executive will implement a methodology for continuously assessing risks. The chief audit executive will consider risks not only in terms of negative effects and barriers to achieving objectives but also in terms of opportunities that enhance the University's ability to achieve its objectives.

The chief audit executive will develop a process to identify and assess significant, new, and emerging risks considered for coverage in the audit plan. For example, resource limitations will make it impossible for the internal audit function to assess every risk in the audit universe annually. In such cases, the chief audit executive will need to increase reliance on sources of risk information such as

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

management risk assessments, meetings with the board and senior management, and the results of previous engagements and other audit work.

To create the internal audit plan, the chief audit executive will consider the level of risk identified across each of the auditable units relative to the known level of control effectiveness. Also influencing the internal audit plan are requests made by the board and senior management, the assurance coverage expected throughout the University, engagements required by laws or regulations, and the internal audit function's ability to rely on the work of other assurance providers. The chief audit executive will reevaluate reliance periodically.

When developing the internal audit plan, the chief audit executive will consider the following:

- Engagements required by laws or regulations.
- Engagements critical to the University's mission or strategy.
- Areas and activities with significant levels of risk.
- Whether all significant risks have sufficient coverage by assurance providers.
- Advisory and ad hoc requests.
- The time and resources required for each potential engagement.
- Each engagement's potential benefits to the University, such as the engagement's potential to contribute to the improvement of the University's governance, risk management, and control processes.

To schedule internal audit engagements, the chief audit executive will consider:

- The University's operational priorities.
- Schedule of external audit engagements and regulatory reviews.
- Competencies and availability of internal auditors.
- Ability to access the activity under review.

The proposed internal audit plan will include:

- The resources and hours available for engagements compared to other administrative and non-audit activities or initiatives focused on improving the internal audit function.
- The list of proposed engagements and related analysis, specifying the degree to which the engagements are:
 - ✓ Assurance or advisory.
 - ✓ Focused on certain departments, units, or objectives of the University.
 - ✓ Predominately addressing financial, compliance, operational, cybersecurity, or other objectives.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- The rationale for selecting each proposed engagement; for example, significance of risk, University theme or trend (root cause), regulatory requirement, or time since last engagement.
- General purpose and preliminary scope of each proposed engagement.
- A percentage of hours reserved for contingencies and ad hoc requests.
- The next set of engagements to perform if additional resources were available. Discussion regarding these engagements will help the board assess the adequacy of resources available to the internal audit function.

The chief audit executive, the board, and senior management will agree upon the criteria that define the significant changes that require a revision of the audit plan. The internal audit function's methodologies will incorporate the agreed-upon criteria and protocol. Examples of significant changes include canceling or postponing engagements related to significant risks or critical strategic objectives. If risks arise that necessitate revisions to the plan before scheduling a formal discussion with the board, the chief audit executive will inform the board of the changes immediately, and formal approval will occur as soon as possible.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 9.5 Coordination and Reliance

The chief audit executive will develop a methodology for evaluating other providers of assurance and advisory services that includes a basis for relying upon their work. The evaluation will consider the providers' roles, responsibilities, University independence, competency, and objectivity, as well as the due professional care applied to their work. The chief audit executive will understand the objectives, scope, and results of the work performed.

The chief audit executive will identify the University's assurance and advisory service providers by communicating with senior management and reviewing the University reporting structure and board meeting agendas or minutes. Internal providers of assurance and advice include functions that may report to or be part of senior management, such as compliance, environmental, financial control, health and safety, information security, legal, risk management, and quality assurance. External assurance providers will report to senior management, external stakeholders, or the chief audit executive.

Examples of coordination include:

- Synchronizing the nature, extent, and timing of planned work.
- Establishing a mutual understanding of assurance techniques, methods, and terminology.
- Providing access to one another's work programs and reports.
- Using management's risk management information to provide joint risk assessments.
- Creating a shared risk register or list of risks.
- Combining results for joint reporting.

The process of coordinating assurance activities varies by university, from informal in small universities to formal and complex in large or heavily regulated universities. The chief audit executive will consider the University's confidentiality requirements before meeting with the various providers to gather the information necessary to coordinate services. Frequently, the providers share the objectives, scope, and timing of upcoming engagements and the results of prior engagements. The providers also discuss the potential for relying on one another's work.

One method to coordinate assurance coverage is to create an assurance map, or a matrix of the University's risks and the internal and external providers of assurance services that cover those risks. The assurance map links identified significant risk categories with relevant sources of assurance and provides an evaluation of the level of assurance for each risk category. Because the map is comprehensive, it exposes gaps and duplications in assurance coverage, enabling the chief audit executive to evaluate the sufficiency of assurance services in each risk area. The chief audit executive can discuss the results with the other assurance providers so that the parties will reach an agreement about how to coordinate activities. In a combined assurance approach, the chief audit executive coordinates the internal audit function's assurance engagements with other assurance providers to reduce the frequency and redundancy of engagements, maximizing the efficiency of assurance coverage.

The chief audit executive may choose to rely on the work of other providers for assorted reasons, such

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

as assessing specialty areas outside the internal audit function's expertise, to decrease the amount of testing needed to complete an engagement and enhance risk coverage beyond the resources of the internal audit function.

To determine whether the internal audit function will rely on the work of another provider, the methodology will consider the provider's:

- Potential or actual conflicts of interest and whether the provider made disclosures.
- Reporting relationships and the potential impacts of this arrangement.
- Relevance and validity of professional experience, qualifications, and certifications.
- Methodology and the due professional care applied in planning, supervising, documenting, and reviewing the work.
- Findings and conclusions and whether they are reasonable, based on sufficient, dependable, and relevant evidence.

After evaluating the work of another assurance provider, the chief audit executive may determine that the internal audit function cannot rely upon the work. Internal auditors will either retest the work and gather additional information or independently perform assurance services.

If the internal audit function intends to rely upon the work of another assurance provider on an ongoing or long-term basis, the parties will document the relationship agreed on and specifications for the assurance provided and the testing and evidence required to support the assurance.

Subsection 10 Manage Resources

The chief audit executive manages resources to implement the internal audit function's strategy and achieve its plan and mandate.

Managing resources requires obtaining and deploying financial, human, and technological resources effectively. The chief audit executive needs to obtain the resources required to perform internal audit responsibilities and deploy the resources according to the methodologies established for the internal audit function.

Procedure 10.1 Financial Resource Management

The chief audit executive will follow the budget processes established by the University. Whether the internal audit function is insourced or outsourced, the board will still approve an adequate budget.

Periodically, the chief audit executive will review the planned budget compared to the actual budget and analyze significant variances to determine the need for adjustments. The budget will include reserves for unexpected but necessary changes to the internal audit plan.

If unforeseen circumstances require significant additional resources, the chief audit executive will discuss the circumstances with the board and senior management promptly.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 10.2 Human Resources Management

The structure and approach to resourcing the internal audit function will align with the internal audit charter and support the achievement of the internal audit function's strategy and implementation of the internal audit plan.

In formulating an approach for managing the internal audit function's human resources, the chief audit executive will:

- Consider University characteristics, such as structure and complexity, geographic complexities, diversity of cultures and languages, and volatility of the risk environment in which the University operates.
- Consider the internal audit budget and the cost effectiveness and flexibility of various staffing approaches (for example, hiring an employee or contracting with an external service provider).
- Understand the options for obtaining the human resources needed to fulfill the internal audit charter and achieve the internal audit plan.
- Communicate with the board and senior management to agree upon an approach.
- Consider succession planning for the chief audit executive position including discussions with the board.

To support an approach for recruiting competent internal auditors, the chief audit executive will:

- Collaborate with the human resources function to develop job specifications or descriptions that align with Procedure 3.1 Competency and relevant professional competency frameworks.
- Consider the benefits of recruiting internal auditors with diverse backgrounds, experiences, and perspectives and creating an inclusive work environment that allows for effective collaboration and sharing of diverse views.
- Participate in recruitment activities, such as job fairs, student events, professional networking opportunities, and interviews with prospective candidates for hire.

To develop and retain internal auditors, the chief audit executive will:

- Implement compensation, promotion, and recognition activities that support the achievement of the internal audit function's strategic objectives.
- Implement methodologies for training, evaluating performance, improving competencies, and promoting the professional development of internal auditors.
- Consider the human resources objectives of the internal audit function and the University, such as cross-functional sharing of knowledge and succession planning.
- Cultivate an ethical, professional environment supporting the effective training and collaboration of internal auditors. (See also Section II: Ethics and Professionalism.)

To evaluate whether the human resources are appropriate and sufficient to achieve the internal audit plan, the chief audit executive will consider:

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- The competencies of the internal auditors and the competencies needed to perform internal audit services.
- The nature and complexity of the services.
- The number of internal auditors and productive work hours available.
- Scheduling constraints, including the availability of internal auditors and the University's information, people, and properties.
- The ability to rely on the work of other assurance providers. (See also Procedure 9.5 Coordination and Reliance.)

In addition to competencies, the chief audit executive will consider the timing or schedule of internal audit engagements, based on the schedules of individual internal auditors and the availability of staff responsible for the activity under review. If an engagement occurs at a specific time, then the resources needed to complete that engagement will be available at that time.

If the resources are insufficient to cover the planned engagements, the chief audit executive will provide training for existing staff, request an expert from within the University to serve as a guest auditor, hire additional staff, rely on other assurance providers, develop a rotational auditing program, or contract with an external service provider. External service providers may provide specialized skills, complete special projects, or perform engagements.

With an internally sourced internal audit function, a rotational model may supplement staffing, whereby employees from other business units join the internal audit function temporarily and later return to the business unit. Employees transferring into the internal audit function may provide specialized skills and knowledge as well as unique perspectives and insights. Additionally, when employees transfer back into business units, their internal audit experiences contribute to a deeper understanding of the University's governance, risk management, and control processes. When using a rotational model, the chief audit executive will be aware of potential impairments to objectivity and will implement related safeguards. (See Procedure 2.2 Safeguarding Objectivity.)

The internal audit methodology for supervising engagements will include sufficient opportunities for internal auditors to receive constructive feedback from more experienced internal auditors in supervisory roles; the supervisory reviews of workpapers and other communications will provide such feedback through written or oral comments. Mentorship programs offer on-the-job experiences through which less experienced internal auditors can follow and directly observe knowledgeable staff performing engagements. The ongoing monitoring and periodic self-evaluations that comprise the internal audit function's internal quality assessments provide additional opportunities for internal auditors to receive feedback and suggestions to increase their effectiveness. (See also Procedure 12.1 Quality Assessment.) Individual performance evaluations conducted at regular intervals, such as annually, are another source of input that will contribute to internal auditors' professional development.

The chief audit executive will follow the University's human resources policies or follow regulatory or contractually driven human resources frameworks. In these cases, the chief audit executive will work to thoroughly understand the frameworks and optimize the job classifications, assessment processes, and other mandated human resources frameworks to support the internal audit function. The chief

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

audit executive will advise the board and senior management when these mandated frameworks diminish the ability to fulfill the human resources needs of the internal audit function.

Procedure 10.3 Technological Resources

The internal audit function will use technology to improve its effectiveness and efficiency. Examples of such technology include:

- Audit management systems.
- Governance, risk management, and control process mapping applications.
- Tools that assist with data science and analytics.
- Tools that assist with communication and collaboration.

To evaluate whether the internal audit function has technological resources to perform its responsibilities, the chief audit executive will:

- Assess the feasibility of acquiring and implementing technology-enabled enhancements across the internal audit function's processes.
- Collaborate with other departments on shared governance, risk, and control management systems.
- Present sufficiently supported technology funding requests to the board and senior management for approval.
- Develop and implement plans to introduce approved technologies. Plans will include training internal auditors and demonstrating the benefits realized to the board and senior management.
- Identify and respond to the risks that arise from technology use, including those related to information security and privacy of individual data.

Subsection 11 Communicate Effectively

The chief audit executive guides the internal audit function to communicate effectively with its stakeholders.

Effective communication requires building relationships, establishing trust, and enabling stakeholders to benefit from the results of internal audit services. The chief audit executive is responsible for helping the internal audit function establish ongoing communication with stakeholders to build trust and foster relationships. Additionally, the chief audit executive oversees the internal audit function's formal communications with the board and senior management to enable quality and provide insights based on the results of internal audit services.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 11.1 Building Relationships and Communicating with Stakeholders

Regular, ongoing communication among the board, senior management, and the internal audit function contributes to a mutual understanding of the University's risks and assurance priorities and promotes adaptability to changes. The University's communication channels will include the chief audit executive to keep current with major developments and planned activities that could affect the objectives and risks of the University. The chief audit executive will also attend meetings with the board and key governance committees, as well as senior management and groups that report directly to senior management, such as compliance, risk management, and quality control.

In addition, the chief audit executive will discuss a methodology for communication with the board and senior management to determine the criteria defining significant issues requiring formal communication, the format and content of formal communication, and the frequency with which such communication will occur.

Meeting independently with individual senior executives and members of the board allows the chief audit executive to build relationships with them and learn about their concerns and perspectives. To better understand business objectives and processes, internal auditors will meet with key members of operational management, such as the heads of business units and employees who perform operational tasks. Meetings between the chief audit executive and external auditors and regulators may be appropriate.

The chief audit executive and internal auditors will initiate discussions with management and the board about strategies, objectives, and risks as well as industry news, trends, and regulatory changes. Such discussions, along with surveys, interviews, and group workshops, are useful tools for obtaining input, especially on fraud and emerging risks. Websites, newsletters, presentations, and other forms of communication can be effective methods for sharing the internal audit function's role and benefits with employees and other stakeholders.

The chief audit executive may delegate individual internal auditors to be responsible for maintaining ongoing communication with the management of key functions such as business segment leaders, global operations, information technology, finance, compliance, and human resources. (See also Procedure 9.5 Coordination and Reliance.)

Communication will include opportunities for ongoing, informal interaction between internal auditors and the University's employees. When informal interactions occur consistently, employees gain trust in internal auditors, increasing the likelihood of candid discussions that will not occur in formal meetings. As a part of relationship-building, informal interaction will enhance internal auditors' comprehensive understanding of the University and its control environment. Rotating internal auditors into and out of assignments in specific business units or locations will balance the benefits of informal communication against the need to protect internal auditors' objectivity.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 11.2 Effective Communication

Methodologies will include policies, criteria, style guides, and procedures to guide the internal audit function's communications and achieve consistency. Communication methodologies will consider the expectations of the board, senior management, and other relevant stakeholders. (See also Procedures 9.3 Methodologies and 15.1 Final Engagement Communication.) The chief audit executive will provide communications training to internal auditors, such as training in writing or preparing presentations of final communications.

Methodologies, such as supervisory reviews, will enhance the degree to which engagement communications are:

- Accurate – free from errors and distortions and faithful to the underlying facts. When communicating, internal auditors will use precise terms and descriptions, supported by information gathered. Internal auditors will also consider other procedures related to accuracy, including Procedure 11.4 Errors and Omissions.
- Objective – impartial, unbiased, and the result of a fair and balanced assessment of all relevant facts and circumstances. Findings, conclusions, recommendations and/or action plans, and other results of internal audit services will be based on balanced assessments of relevant circumstances.
- Communications will focus on identifying information and linking the information to objectives. Internal auditors will avoid terms perceived as biased. (See also Subsection 2 Maintain Objectivity and its procedures.)
- Clear – logical and easily understood by relevant stakeholders, avoiding unnecessary technical language. Internal auditors' use of language that is consistent with terminology used in the University and easily understood by the intended audience increases clarity. Internal auditors will avoid unnecessary technical language and define important terms that are uncommon or used in a way that is specific or unique to communication or presentation. Internal auditors improve the clarity of their communication by including significant details that support findings, conclusions, recommendations, and/or action plans.
- Concise – succinct and free from unnecessary detail and wordiness. Internal auditors will avoid redundancies and exclude information that is unnecessary, insignificant, or unrelated to the engagement or service.
- Constructive – helpful to stakeholders and the University and enabling improvement where needed. Internal auditors will express information with a cooperative and helpful tone that facilitates collaboration with the activity under review to determine opportunities for improvement.
- Complete – relevant, dependable, and sufficient information and evidence to support the results of internal audit services. Completeness enables the reader to reach the same conclusions as those reached by internal auditors. Internal auditors will adapt communications to meet the needs of various recipients and consider the information they need to take the actions for which they are responsible. For example, communications to the board and senior management will differ from those delivered to the management of an activity under review.
- Timely – appropriately timed, according to the significance of the issue, allowing management

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

to take corrective action. Timeliness will depend upon the nature of the engagement.

The chief audit executive will establish key performance measures to monitor the effectiveness of internal audit communication, used as part of the function's quality assurance and improvement program. (See also Procedure 8.3 Quality, and Subsection 12 Enhance Quality and its procedures.)

Procedure 11.3 Communicating Results

The results of internal audit services will be based on individual engagements, multiple engagements, and interactions with the board and senior management over time.

Engagement Conclusions

While Procedure 13.1 Engagement Communication requires internal auditors to communicate throughout an engagement with those responsible for the activity under review, the chief audit executive is responsible for the dissemination of final engagement communications to the appropriate parties. Appropriate parties will include the board, senior management, and/or those responsible for developing and implementing management's action plans. (See also Procedure 15.1 Final Engagement Communication.)

The chief audit executive will encourage internal auditors to acknowledge satisfactory and positive performance in engagement communications. Examples of good practices identified across engagements may be transferable to other parts of the University or serve as a benchmark throughout the University.

Themes

Tracking the findings and conclusions of multiple engagements will enable the identification of trends, such as the improvement or worsening of conditions compared to criteria, a root cause underlying the conditions, or an opportunity to share a practice that increases effectiveness or efficiency. Such trends also may lead to additional engagements that focus on the theme across the University.

Communications with the board and senior management will include:

- Significant control weaknesses and robust root cause analysis.
- Thematic or systemic issues, actions, or progress across multiple engagements or business units.

The chief audit executive will consider Insights obtained from other assurance providers when identifying themes. (See also Procedure 9.5 Coordination and Reliance.)

Conclusions at the Level of the Business Unit or University

When communicating conclusions at the levels of the business unit or University overall, the chief audit executive will consider how a conclusion relates to the strategies, objectives, and risks of the University. The chief audit executive will also consider whether the conclusion solves a problem, adds

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

value, and/or provides management or other stakeholders with confidence regarding an overall theme or condition.

The chief audit executive will also consider the period to which the conclusion relates and any scope limitations to determine which engagements would be relevant to the overall conclusion. The chief audit executive will consider all related engagements or projects, including those completed by other internal and external assurance providers. (See also Procedure 9.5 Coordination and Reliance.)

For example, an overall conclusion may be based on aggregate engagement conclusions at the University's local, regional, and national levels, along with results reported from outside entities such as independent third parties or regulators. The scope statement provides context for the overall conclusion by specifying the period, activities, limitations, and other variables that describe the conclusion's boundaries.

The chief audit executive will summarize the information on which the overall conclusion is based and identify the relevant risk or control frameworks, or other criteria used as a basis for the overall conclusion. The chief audit executive will articulate how the overall conclusion relates to the strategies, objectives, and risks of the University. The chief audit executive will usually communicate overall conclusions in writing but also will provide them orally.

Procedure 11.4 Errors and Omissions

The chief audit executive and the board will agree on a protocol for communicating the correction. To determine the significance, the chief audit executive will evaluate whether the mistaken or omitted information could have legal or regulatory consequences or change the findings, conclusions, recommendations, or management's action plans.

The chief audit executive will determine the most appropriate method of communication so that all parties who received the original communication receive the corrected information. In addition to communicating the corrected information, the chief audit executive will identify the cause of the error or omission and take corrective action to prevent a comparable situation from occurring in the future.

Procedure 11.5 Communicating the Acceptance of Risks

The chief audit executive will gain an understanding of the University's risks and risk tolerance through discussions with the board and senior management, relationships and ongoing communication with stakeholders, and the results of internal audit services. (See Procedures 8.1 Board Interaction; 9.1 Understanding Governance, Risk Management, and Control Processes; and 11.1 Building Relationships and Communicating with Stakeholders.) This understanding provides the chief audit executive with a perspective about the level of risk the University considers acceptable. If the University has a formal risk management process, the chief audit executive will understand management's policies for acceptance of risk.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

The chief audit executive will discuss and seek the board's agreement on methodologies for documenting and communicating the acceptance of risks that exceed the risk appetite or risk tolerance. In addition to the requirements in the Procedures, methodologies will consider the University's risk management process, policies, and procedures. The risk management process will include a preferred approach to communicating significant risk issues. Specifications will include the timeliness of communicating, the hierarchy of reporting, and requirements for consultation with the University's legal counsel or head of compliance. The internal audit methodology will also include procedures for documenting the discussions and actions taken, including a description of risk, the reason for concern, management's reason for not implementing internal auditors' recommendations or other actions, the name of the individual responsible for accepting the risk, and the date of discussion.

The chief audit executive may become aware that management has accepted a risk by reviewing management's response to engagement findings and monitoring management's progress to implement recommendations and action plans. Building relationships and maintaining communication with stakeholders are additional means of remaining apprised of risk management activities including management's acceptance of risk.

When risks exceed the risk appetite, impacts will include:

- Harm to the University's reputation.
- Harm to the University's employees or other stakeholders.
- Significant regulatory fines, limitations on business conduct, or other financial or contractual penalties.
- Material misstatements.
- Conflicts of interest, fraud, or other illegal acts.
- Significant impediments to achieving strategic objectives.

The chief audit executive's professional judgment contributes to the determination of whether management has accepted a level of risk that exceeds the risk appetite or risk tolerance. For example, if management has made insufficient progress on action plans, the chief audit executive may conclude that management has accepted a level of risk that exceeds the risk appetite or risk tolerance. Before escalating concern to the board and/or senior management, the chief audit executive will address the issue directly with the management responsible for the risk area to share concerns, understand management's perspective, and agree on an updated action plan.

The chief audit executive will implement the requirements of this procedure only when s/he cannot reach agreement with the management responsible for managing the risk. If the risk identified as unacceptable remains unresolved after a discussion with senior management, the chief audit executive will escalate the concern to the board. The board is responsible for deciding how to address the concern with management.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Subsection 12 Enhance Quality

The chief audit executive is responsible for the internal audit function's continuous performance improvement.

Quality is a measure of the achievement of the internal audit function's performance objectives. Therefore, a quality assurance and improvement program evaluate and promotes the internal audit function's conformance with the Procedures, achievement of performance objectives, and pursuit of continuous improvement.

The chief audit executive is responsible for ensuring that the internal audit function is continuously seeking improvement. This requires developing measures to assess the performance of internal audit engagements, internal auditors, and the internal audit function. These measures form the basis for evaluating progress toward performance objectives including continuous improvement.

Procedure 12.1 Quality Assessment

Ongoing Monitoring

Ongoing monitoring involves day-to-day supervision, review, and measurement of the internal audit function. The routine policies and practices used to manage the internal audit function incorporate ongoing monitoring and includes the processes, tools, and information necessary to evaluate conformance with the Procedures.

The internal audit function monitors progress toward performance objectives primarily through methodologies such as supervisory reviews of engagement planning, workpapers, and final communications. These methodologies enable the identification of weaknesses or areas in need of improvement and action plans to address them. The chief audit executive will develop templates or automated workpapers for internal auditors to use throughout engagements to promote proceduralizing and consistency in the application of the work practices.

Adequate engagement supervision is a fundamental element of the quality assurance and improvement program. Supervision begins with planning and continues throughout the engagement. Supervision will include setting expectations, encouraging communication among team members throughout the engagement, and reviewing and signing off on workpapers timely. (See also Procedure 12.3 Oversee and Improve Engagement Performance.)

Additional mechanisms used for ongoing monitoring include:

- Checklists or automated tools to provide assurance on internal auditors' compliance with established methodologies and to facilitate consistent performance of internal audit services in conformance with the Procedures.
- Feedback from internal audit stakeholders regarding the efficiency and effectiveness of the internal audit team. Internal Audit will solicit feedback immediately after the engagement or periodically (for example, semi-annually or annually) through survey tools or discussions between the chief audit executive and management.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- Other measurements valuable in determining the efficiency and effectiveness of the internal audit function include metrics indicating the adequacy of resource allocation (such as budget-to-actual variance), the timeliness of engagement completion, the achievement of the internal audit plan, and surveys of stakeholder satisfaction.

In addition to validating conformance with the Procedures, ongoing monitoring will identify opportunities to improve the internal audit function. In such cases, the chief audit executive will address these opportunities by developing an action plan.

Periodic Self-assessments

Periodic self-assessments provide a more holistic, comprehensive review of the Procedures and the internal audit function. Periodic self-assessments address conformance with every procedure, whereas ongoing monitoring will focus on the procedures relevant to performing engagements. Senior members of the internal audit function, a focused quality assurance team, individuals within the internal audit function who have attained the Certified Internal Auditor designation or have experience with the Procedures, or individuals with audit competencies from elsewhere in the University will conduct periodic self-assessments. The chief audit executive will consider including internal auditors in the periodic self-assessment process to improve their understanding of the Procedures.

Periodic self-assessments enable the internal audit function to validate its conformance with the Procedures.

Periodic self-assessments evaluate:

- The adequacy of the internal audit function's methodologies.
- How well the internal audit function supports the achievement of the University's objectives.
- The quality of internal audit services performed, and supervision provided.
- The degree of meeting the stakeholder's expectations and achieving performance objectives.

The individual or team conducting the periodic self-assessment will evaluate the internal audit function's conformance against each procedure and will interview and survey the internal audit function's stakeholders. Through this process, the chief audit executive can assess the quality of and adherence to the internal audit function's methodologies.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 12.2 Performance Measurement

The establishment of performance objectives is critical to determining whether an internal audit function is fulfilling its mandate in conformance with the Procedures and achieving improvement in accordance with the function's strategy.

Establishment of performance objectives will take into consideration the desired outcomes articulated within:

- The internal audit charter.
- The strategy of Internal Audit.

The chief audit executive will identify a set of focused performance objectives to report to the board and senior management while maintaining a more comprehensive set of performance objectives for managing the internal audit function. The chief audit executive will take care to identify performance objectives that advance desired outcomes and balancing across outcome areas: stakeholder expectations, extent of business unit or University conclusions, needs of human resources, financial and operational efficiency, and learning and development.

After identifying the performance objectives, the chief audit executive will establish targets, both quantitative and qualitative, to track progress toward meeting the performance objectives. The chief audit executive will have a methodology in place to periodically validate the accuracy of the measures reported and raise performance expectations.

The chief audit executive will track and communicate with the board and senior management the action plans to address issues and opportunities to achieve performance objectives. Examples of performance categories when establishing performance objectives and measures will include:

- Coverage of engagement objectives expected to review according to the internal audit mandate.
- The extent to which the internal audit conclusions at the level of the business unit or University address significant objectives of the University. (See also Procedure 11.3 Communicating Results.)
- The percentage of recommendations or action plans completed by management that result in desired outcomes, as monitored by the internal audit function. This measure is not exclusively a reflection of the internal audit function's performance. While internal audit functions will track the implementation of recommendations or action plans, management is responsible for completing such actions and ensuring the achievement of desired outcomes. (See also Procedure 15.2 Confirming the Implementation of Recommendations or Action Plans.)
- Percentage of the University's key risks and controls reviewed.
- Stakeholder satisfaction regarding understanding of engagement objectives, timeliness of engagement work, and clarity of engagement conclusions.
- Percentage of internal audit plan (as adjusted and approved) completed on time.
- Balance of assurance and advisory engagements in the internal audit plan relative to the internal audit strategy.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- Quality assurance reviews which confirm that adequate competencies are in place to perform the scheduled internal audit engagements.
- Internal auditor learning and development plans linked to the internal audit strategy and the University's developing risks.
- Staff holding at least one recognizable professional certification relevant to internal auditing.

Procedure 12.3 Oversee and Improve Engagement Performance

When planning engagements, the chief audit executive or a designated engagement supervisor will review the engagement objectives. Supervision will include opportunities for staff development, such as post-engagement meetings between the internal auditors who performed the engagement and the chief audit executive.

Assessing the skills of the internal audit staff is an ongoing process extending beyond reviewing engagement workpapers. Based on the results of skill assessments, the chief audit executive will identify which internal auditors are qualified to supervise engagements and assign tasks accordingly.

During the planning phase, the engagement supervisor will approve the engagement work program and may assume responsibility for other aspects of the engagement. (See also Subsection 13 Plan Engagements Effectively and its procedures.)

The primary criterion for approval of the work program is whether it achieves the engagement objectives efficiently. The work program will include procedures for identifying, analyzing, evaluating, and documenting engagement information. Engagement supervision will also involve monitoring the completion of the work program and approving changes to the work program.

The engagement supervisor will maintain ongoing communication with the internal auditors assigned to perform the engagement and the management of the activity under review. The engagement supervisor will review the engagement workpapers, which describe the audit procedures performed, the information identified, and the findings and preliminary conclusions made during the engagement. The supervisor will evaluate whether the information, testing, and resulting evidence are relevant, dependable, and sufficient to achieve the engagement objectives and support the engagement conclusions. The chief audit executive will consider the use of tools such as checklists or other automated tools to assist in overseeing conformance with the Procedures in each engagement.

Procedure 11.2 Effective Communication requires that engagement communications be accurate, objective, clear, concise, constructive, complete, and timely. An engagement supervisor will review engagement communications and workpapers for these elements because workpapers provide the primary support for engagement communications.

Throughout the engagement, the engagement supervisor and/or chief audit executive will meet with the internal auditors assigned to perform the engagement and discuss the engagement process, which provides opportunities to train, develop, and evaluate the internal auditors. A supervisor may

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

ask for additional evidence or clarification when reviewing the engagement communications and work papers. Internal auditors will be able to improve their work by answering questions posed by the engagement supervisor.

Usually, the final documentation does not include the supervisor's review notes once the process owner provides adequate evidence or work papers include additional information that addresses the supervisor's concerns and questions. Alternatively, the internal audit function will retain a separate record of the supervisor's review notes, the steps taken to resolve them, and the results of those steps.

The chief audit executive is responsible for all internal audit engagements and significant professional judgments made throughout the engagements, regardless of whether the internal audit function or other assurance providers performed the work. The chief audit executive will develop methodologies to minimize the risk that internal auditors will make judgments or take actions that are inconsistent with the chief audit executive's professional judgment and will adversely affect the engagement. The chief audit executive will establish a means to resolve any professional judgment differences. This will include discussing pertinent facts, pursuing additional inquiry or research, and documenting differing viewpoints in engagement workpapers as well as any conclusions. If there is a difference in professional judgment over an ethical issue, the chief audit executive will refer the issue to individuals in the University who are responsible for ethical matters.

Section V: Performing Internal Audit Services

Performing internal audit services requires internal auditors to effectively plan engagements, conduct the engagement work to develop findings and conclusions, collaborate with management to identify recommendations and/or action plans that address the findings, and communicate with management and the employees responsible for the activity under review throughout the engagement and after it closes.

Although internal auditors present the procedures for performing engagements in a sequence, the steps in performing engagements are not always distinct, linear, and sequential. In practice, the order of performing the steps will vary by engagement and have overlapping and iterative aspects. For example, engagement planning includes gathering information and assessing risks, which will continue throughout the engagement. Each step will affect another or the engagement. Therefore, internal auditors will review and understand all procedures in this section before beginning an engagement.

Internal audit services involve providing assurance, advice, or both. Internal auditors must apply and conform with the Procedures when performing engagements, whether they are providing assurance or advice, except when otherwise specified in individual procedures.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Assurance services provide confidence about governance, risk management, and control processes to the University's stakeholders, especially the board, senior management, and the management of the activity under review. Through assurance services, internal auditors provide objective assessments of the differences between the existing conditions of an activity under review and a set of evaluation criteria. Internal auditors will evaluate the differences to determine whether there are reportable findings and to provide a conclusion about the engagement results, including reporting when processes are effective.

Internal auditors may initiate advisory services or perform them at the request of the board, senior management, or the management of an activity. The nature and scope of advisory services will be subject to agreement with the party requesting the services. Examples of advisory services include advising on the design and implementation of new policies, processes, systems, and products; providing forensic services; providing training; and facilitating discussions about risks and controls. When performing advisory services, internal auditors must maintain objectivity by not taking on management responsibility. For example, internal auditors will perform advisory services as individual engagements, but if the chief audit executive takes on responsibilities beyond internal auditing, then the University must implement appropriate safeguards to maintain the internal audit function's independence. (See also Procedure 7.1 University Independence.)

The chief audit executive's established methodologies describe the performance of internal audit services. (See also Procedure 9.3 Methodologies.) The chief audit executive may delegate appropriate responsibility to other qualified professionals in the internal audit function but retain ultimate accountability.

.....

Subsection 13 Plan Engagements Effectively

Internal auditors plan each engagement using a systematic, disciplined approach.

The methodologies established by the chief audit executive form the foundation of internal auditors' systematic, disciplined approach to planning engagements. Internal auditors are responsible for effectively communicating at all stages of the engagement.

Engagement planning starts with understanding the initial expectations for the engagement and the reason the internal audit plan included the engagement. When planning engagements, internal auditors will gather the information that enables them to understand the University and the activity under review and to assess the risks relevant to the activity. The engagement risk assessment allows internal auditors to identify and prioritize the risks to determine the engagement objectives and scope. Internal auditors will also identify the criteria and resources needed to perform the engagement and develop an engagement work program, which describes the specific engagement steps to perform.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 13.1 Engagement Communication

Engagement communications will include initial, ongoing, closing, and final communications with the management of the activity under review. This type of engagement will affect the communications needed. To ensure effective communication, Internal Audit will use a variety of methods: formal, informal, written, and oral. Engagement communications will occur through scheduled meetings, presentations, emails and other documents, and informal discussions. The chief audit executive will establish requirements for the quality and content of engagement communications in alignment with the expectations of the board and senior management and document them in internal audit methodologies. (See also Procedures 9.3 Methodologies and 11.2 Effective Communication.)

The extent of ongoing communication depends upon the nature and length of the engagement and will include:

- Announcing the engagement.
- Discussing the engagement risk assessment, objectives, scope, and timing.
- Requesting the information and resources necessary to perform the engagement.
- Setting expectations for additional engagement communications.
- Providing updates about the progress of engagement, including governance, risk management, or control issues that require immediate attention and changes to the scope, objectives, timing, or length of the engagement.
- The engagement results, including findings, recommendations, and/or management's action plans to address the findings.
- The timing of and owner responsible for implementing recommendations and/or action plans.

Internal auditors will give advance notice of the engagement to the appropriate stakeholders, typically including management and relevant staff, to set the foundation for cooperation and open dialogue. Internal auditors will follow the policy established by the chief audit executive to determine the timing and type of notice given. The announcement will inform management about the reason for the review. It will also inform management of the proposed starting time and the approximate duration of the engagement to plan a schedule that does not conflict with other noteworthy events occurring in the activity under review. Additionally, internal auditors will request the information and documentation needed to assess risks and begin developing the work program.

Another common initial communication is an opening or entrance meeting. When internal auditors have conducted an engagement risk assessment, they will communicate the results to the management of the activity under review. They also will communicate the initial engagement objectives and scope, preferably in a meeting. This discussion provides an opportunity for internal auditors to confirm that the management of the activity under review understands and supports the objectives, scope, and timing of the engagement. The discussion allows the parties to make any necessary adjustments to the engagement approach and establish the expectations for additional communication, including the frequency of communication and who will receive the final communication. Internal auditors will document this discussion in the engagement workpapers.

Regular communication throughout the engagement between internal auditors and the management

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

of the activity under review is essential for transmitting information that requires immediate attention and updating relevant parties about engagement progress or changes to the objectives or scope. This ongoing communication provides transparency and helps internal auditors, and the management of the activity to identify and resolve any misunderstandings or differences.

Depending on the type of engagement, internal auditors will have a closing communication (also called an “exit conference”), which is an opportunity for internal auditors, the management of the activity under review, and relevant staff to finalize the engagement results before issuing a final communication. The closing communication provides an opportunity for management and internal auditors to discuss any differences or disagreements about the engagement results with a goal of reaching an agreement.

Discussing the feasibility of internal auditors’ recommendations or management’s action plans will include weighing the costs, such as the severity of the risk compared to the benefits of implementing the recommendations or action plans. (See also Procedure 14.4 Recommendations and Action Plans.)

The closing communication may precede the full development of management action plans, but management may have ideas about the actions it will take to address the findings. Even if management has not completely developed action plans, management and Internal Audit can discuss and evaluate ideas. After the discussion, management can confirm its action plans, the expected timing of implementation, and the personnel responsible for implementing the actions.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 13.2 Engagement Risk Assessment

Internal auditors will consult with the engagement supervisor while planning.

To develop an understanding of the activity under review and assess relevant risks, internal auditors will start by understanding the internal audit plan, the discussions that led to its development, and the reason for including the engagement. Engagements included in the internal audit plan will arise from the internal audit function's University-wide risk assessment or from stakeholder requests.

When internal auditors begin an engagement, they will consider the risks applicable to the engagement and inquire whether any changes have occurred since developing the internal audit plan. Reviewing the University-wide risk assessment and any other risk assessments recently conducted (such as those completed by management) will help internal auditors identify risks relevant to the activity under review. Internal auditors will understand any stakeholder expectations that exist regarding the purpose, objectives, and scope of the engagement.

Internal auditors will examine the alignment between the University and the activity under review. Internal auditors will gather and consider the information about the University's strategies and processes for governance, risk management, and control processes, as well as the University's objectives, policies, and procedures. Internal auditors will consider how these aspects of the University relate to the activity under review and to the engagement as they begin to develop the engagement risk assessment.

To gather information, internal auditors will:

- Review risk assessments recently conducted by the internal audit function, management, or external service providers. The objectives considered will include those related to compliance, financial reporting, operations or performance, fraud, information technology, strategy, and internal audit plans.
- Review communications of engagements previously performed by the internal audit function and other assurance and advisory service providers, such as financial, environmental, social responsibility, and governance.
- Review workpapers from previous engagements.
- Review reference materials, including authoritative guidance from The IIA and other bodies, laws, and regulations relevant to the University's sector, industry, and authority.
- Consider the relevant risk categories of the University, including strategic, operational, financial, and compliance.
- Consider risk tolerance if defined.
- Use organizational charts and job descriptions to determine who is responsible for relevant information, processes, and other aspects of the activity under review.
- Inspect physical property of the activity under review.
- Examine documentation from the information owner or outside sources, including management's policies, procedures, flowcharts, and reports.
- Examine websites, databases, and systems.
- Inquire through interviews, discussions, or surveys.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- Observe a process in action.
- Meet with other assurance and advisory service providers.

Surveys, interviews, physical inspections, and process walk-throughs allow internal auditors to observe the current conditions in the activity under review.

To perform the engagement risk assessment, internal auditors will use the gathered information to understand and document the objectives of the activity under review, the risks that could affect the achievement of each objective, and the controls intended to manage each risk. (See also Procedure 14.6 Engagement Documentation.)

Internal auditors will create a chart, spreadsheet, risk and control matrix, process narrative, or other tool to document the risks and the controls designed to manage these risks. Such documentation enables internal auditors to apply professional judgment, experience, and logic to consider the information gathered in the context of the activity under review and to estimate the significance of the risks in terms of a combination of impact, likelihood, and other risk factors.

Determining the significance of risks requires internal auditors to apply their knowledge, experience, and critical thinking to make judgments about the University, the activity under review, and the engagement purpose and context. As part of due professional care, internal auditors will consider input from the management of the activity under review to gain insight into the business objectives, significant risks, and controls. Establishing a mutual understanding of the risks of the activity under review increases the usefulness of the engagement risk assessment.

The internal auditors will prioritize risks to address during the engagement according to significance, often illustrated by plotting the risks on a graph, such as a heat map, based on the likelihood of the risk occurring and its potential impact. The engagement workpapers will retain such documentation. For the most significant risks, assessing the adequacy of the design of the controls helps internal auditors determine which controls to continue testing for operating effectiveness.

When used, internal auditors typically develop a risk and control matrix throughout the engagement. As the engagement progresses through the testing phase, the matrix will document the risk event, control, and its type (that is, preventive, detective, directive, or corrective), cause, effect (consequence), and assessment of residual risk.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 13.3 Engagement Objectives and Scope

The objectives and scope for assurance engagements will be determined primarily by the internal auditors, whereas the internal auditors and the management of the activity under review will typically jointly establish the objectives and scope for advisory engagements.

Internal auditors will align the engagement objectives with the business objectives of the activity under review, as well as with those of the University. Properly defining engagement objectives and scope before the engagement starts enables internal auditors to:

- Focus efforts on the risks relevant to the activity under review based on the results of the engagement risk assessment. (See also Procedure 13.2 Engagement Risk Assessment.)
- Develop the engagement work program.
- Avoid duplicating efforts or performing work that does not add value.
- Determine the engagement timeline.
- Allocate appropriate and sufficient resources to complete the engagement. (See also Procedure 13.5 Engagement Resources.)
- Communicate clearly with management and the board.

Assurance engagements focus on providing assurance that the process owner adequately designed and operated the controls in place to manage the risks that could prevent the activity under review from achieving its business objectives. The objectives of these engagements direct the priorities for assessing the controls of processes and systems during the engagement. These include controls designed to manage risks related to:

- Assignment of authority and responsibility.
- Compliance with policies, plans, procedures, laws, and regulations.
- Reporting accurate, reliable information.
- Effectively and efficiently using resources.
- Safeguarding assets.

Once the internal auditors establish the engagement objectives, they will use professional judgment and consult with the engagement supervisor as necessary to determine the scope of engagement work. The scope will be broad enough to achieve the engagement objectives. When determining the scope, internal auditors will consider each engagement objective independently to ensure their accomplishment within the scope.

Internal auditors will consider whether requests from the engagement stakeholders for items included in or excluded from the scope, or restrictions on the length of the engagement, constitute a scope limitation.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 13.4 Evaluation Criteria

As part of gathering information and planning the engagement, internal auditors will identify the criteria used by the University to evaluate the effectiveness and efficiency of the governance, risk management, and control processes of the activity under review. Internal auditors will focus on the evaluation criteria most relevant to the engagement. Such criteria will represent the desired state of the activity and be specific and practical. Internal auditors will compare the criteria against the existing state (condition). For example, if an engagement objective is to assess the effectiveness of the control processes in the activity under review, the criteria could be the expected results or outcomes of the activity's control processes, while the actual outcomes reveal the condition.

Adequate criteria are essential for identifying a difference between the desired state and the condition, which represents potential findings. Additionally, adequate criteria are necessary for determining the significance of the findings and reaching meaningful conclusions. Internal auditors will use professional judgment to determine whether the University's criteria are adequate. Adequate criteria are relevant, aligned with the objectives of the University and the activity under review, and produce reliable comparisons. Examples of adequate criteria include:

- Internal (policies, procedures, key performance indicators, or targets for the activity).
- External (laws, regulations, and contractual obligations).
- Authoritative practices (frameworks, procedures, guidance, and benchmarks specific to an industry, activity, or profession).
- Established University practices.
- Expectations based on the design of a control.
- Procedures not formally documented.

When evaluating the adequacy of the criteria, internal auditors will determine whether the University has established basic subsections to define appropriate governance, risk management, and control processes. Internal auditors will consider whether the University has developed and clearly articulated its risk tolerance, including materiality thresholds for various business units, functions, or processes. Internal auditors will ascertain whether the University has adopted or clearly articulated a satisfactory level of control.

For example, "satisfactory" could mean that the process conducted a certain percentage of transactions within one control objective in accordance with established control procedures or that a certain percentage of controls overall are working as intended.

Additionally, internal auditors will research recommended practices and compare management's criteria to those used by other universities. Determining the criteria that are best for achieving the engagement objectives requires internal auditors to apply professional judgment. Internal auditors may determine that the documented policies, procedures, and/or other criteria lack detail or are otherwise inadequate. Internal auditors may assist management in determining adequate criteria or may seek input from experts to help identify or develop relevant criteria. Management's criteria may appear adequate, but internal auditors may suggest better criteria for the engagement.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

When the criteria used by the activity under review are inadequate or nonexistent, internal auditors will recommend that management implement the criteria identified by the internal auditors. The discussion about the lack of adequate criteria may lead to a decision to provide advisory services.

Internal auditors will inform the management of the activity under review of the criteria used during the engagement. Internal auditors will document the agreed-upon criteria to preclude misinterpretation or challenge by the management of the activity under review.

Procedure 13.5 Engagement Resources

An internal auditor designated to lead and supervise the engagement typically manages identifying and assigning resources when planning an engagement. To determine the type and quantity of resources needed for an engagement, the engagement supervisor will understand the information gathered and developed throughout engagement planning, paying special attention to the nature and complexity of work to perform. The supervisor will apply professional judgment to assign resources based on the steps identified in the work program to achieve the engagement objectives and the time that each step will take. (See Procedure 13.6 Work Program.) It is also important to consider constraints that will affect the engagement's performance, such as the number of hours budgeted, timing, organization, and communications in multiple languages.

When planning engagements, internal auditors will consider the most efficient and effective application of available financial, human, and technological resources. The engagement supervisor may have access to the chief audit executive's information about the specialized competencies held by members of the internal audit function, which can help inform how to assign staff. Planning the engagement requires determining whether the available resources are appropriate and sufficient or additional resources are necessary to complete the engagement.

When resource limitations interfere with the internal audit function's ability to achieve the engagement objectives, the engagement supervisor is responsible for escalating the concern to the chief audit executive. The chief audit executive is responsible for discussing with senior management and the board the implications of resource limitations and determining the course of action to take. For example, when the chief audit executive is unable to obtain the necessary resources, the engagement scope may necessitate reduction. (See also Subsection 10 Manage Resources and its procedures.)

To improve the effective implementation of resources, internal auditors will document the actual time spent performing the engagement against the budgeted time. The internal auditors will review the documentation to improve future resource planning.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 13.6 Work Program

When planning an engagement, internal auditors will collect and organize information to create a work program. The engagement work program builds on the information gathered and developed during engagement planning and details the tasks and methodologies to use to achieve the engagement objectives and analyze and evaluate information as internal auditors develop engagement findings, recommendations, and conclusions. For advisory services, the internal auditors will develop the work program in collaboration with the stakeholders who requested the service.

Internal auditors will document work performed during the planning phase in workpapers and referenced in the work program. (See also Procedure 14.6 Engagement Documentation.) Work programs will include a place to add the name of the internal auditor who completed the work, the date of completion of the work, and an indication of review and approval of the various work tasks completed.

Internal auditors will develop the work program by linking the risks and controls identified during the engagement risk assessment with a testing approach to implement. As internal auditors conduct analyses and evaluations, they will link the risks and controls to the findings and conclusions.

The level of analysis and detail applied during the planning phase varies by internal audit function and engagement. When using sampling, the work program will include the sampling methodology, population, sample size, and whether to project the results to the population.

The internal auditors will complete evaluating the adequacy of the control design as part of engagement planning, because it helps them clearly identify key controls to further assess for effectiveness. The internal auditors will document the evaluation of the adequacy of the control design in either the work program or a separate workpaper. (See also Procedure 14.6 Engagement Documentation.) However, the most appropriate time to perform this evaluation depends on the nature of the engagement. If not completed during planning, the control design evaluation will occur as a specific stage of engagement performance, or internal auditors will evaluate the control design while performing tests of the effectiveness of the controls.

Subsection 14 Conduct Engagement Work

Internal auditors implement the engagement work program to achieve the engagement objectives.

To implement the engagement work program, internal auditors will gather information and perform analyses and evaluations to produce evidence. These steps enable internal auditors to:

- Provide assurance and identify potential findings.
- Determine the causes, effects, and significance of the findings.
- Develop recommendations and/or collaborate with management to develop action plans.
- Develop conclusions.

Procedure 14.1 Gathering Information for Analyses and Evaluation

When gathering information to complete each step in the engagement work program, internal auditors will focus on the information that is relevant to the engagement objectives and within the engagement scope. In applying professional skepticism, internal auditors will critically assess whether the information is factual, current, and obtained directly (such as by observation) or from a source independent of those responsible for an activity under review. Corroborating the information by comparing it to more than a sole source is another way to increase reliability.

Procedures to gather information for analysis will include:

- Interviewing or surveying individuals involved in the activity.
- Directly observing a process, also known as performing a walk-through.
- Obtaining confirmation or verification of information from an individual who is independent of the activity under review.
- Inspecting or examining physical evidence such as documentation, inventory, or equipment.
- Directly accessing University systems to observe or extract data.
- Working with system users and administrators to obtain data.

When gathering information, internal auditors will consider whether to evaluate a complete data population or a representative sample. Using data analysis software facilitates the ability to evaluate complete or targeted data populations. If internal auditors choose to select a sample, they will apply methods to ensure that the sample is as representative of the entire population as possible.

Procedure 14.2 Analyses and Potential Engagement Findings

The engagement work program will include a list of specific analyses to conduct, such as:

- Tests of the accuracy or effectiveness of a process or activity.
- Ratio, trend, and regression analyses.
- Comparisons between current period information and budgets, forecasts, or similar information from prior periods.
- Analyses of relationships among sets of information (for example, financial information, such as recorded payroll expenses, and non-financial information, such as changes in the average number of employees).
- Internal benchmarking, comparing information between different areas within the University.
- External benchmarking, comparing information from similar universities.

Internal auditors will understand and use technologies that improve the efficiency and effectiveness of analyses, such as software applications that enable testing of an entire population rather than just a sample.

The analysis should yield a meaningful comparison between the evaluation criteria and the condition. When the analyses indicate a difference between the criteria and the condition, internal auditors will apply subsequent engagement procedures to determine the cause and effect of the difference and significance of the potential findings. Common examples of potential engagement findings include errors, irregularities, illegal acts, and opportunities for improving efficiency or effectiveness.

Internal auditors will exercise due professional care to determine the extent and type of additional procedures to use to evaluate the potential findings and determine their cause, effect, and significance. The chief audit executive and the internal audit methodologies will provide guidance for determining whether to perform additional analyses. Considerations include the:

- Results of the engagement risk assessment, including the adequacy of control processes.
- Significance of the activity under review and the potential findings.
- Extent to which the analyses support potential engagement findings.
- Availability and reliability of information for further evaluation.
- Costs compared to the benefits of performing additional analyses.

Procedure 14.3 Evaluation of Findings

To develop engagement findings, internal auditors will compare the established criteria to the existing condition in the activity under review. (See Procedure 14.2 Analyses and Potential Engagement Findings.) If there is a difference between the two, internal auditors must investigate the potential findings further. The evaluation will explore:

- The root cause of the difference, which often relates to a control deficiency and is a direct reason the condition exists. To the extent feasible, internal auditors will determine the root

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

cause, which is an underlying or deeper issue that contributed to the condition. At its simplest, determining the root cause involves asking a series of questions about why the difference exists. Identifying the root cause involves collaboration with management, who may be in a better position to understand the underlying causes of the difference.

- How to quantify the impact of the difference. In certain cases, the extent of the exposure is an estimate informed by internal auditors' professional judgment with input from the management of the activity under review. (See also Subsection 4 Exercise Due Professional Care and its procedures.)

To determine the significance of a finding, internal auditors will identify and evaluate existing controls for design adequacy and effectiveness, then determine the level of residual risk, which is the risk that remains despite having controls in place. Although internal auditors must communicate significant risks as findings, internal auditors may also communicate other risks as findings or in another way.

Internal auditors will prioritize findings based on the methodology established by the chief audit executive to provide consistency across all internal audit engagements. A rating or ranking is an effective communication tool for describing the significance of each finding and assists management with prioritizing its action plans. When determining the significance, internal auditors will consider:

- The impact and likelihood of the risk.
- The risk tolerance.
- Any additional factors that are important to the University.

The chief audit executive will provide templates for internal auditors to use to document engagement findings, ensuring proper documentation of various elements such as the:

- Criteria.
- Condition.
- Root cause (when possible).
- Effect (risk or potential exposure).
- Significance and prioritization.

Internal auditors will write findings succinctly, in plain language, such that the management of the activity under review understands the internal auditors' evaluation. Findings will explain the difference between the conditions and the criteria and will provide documented evidence that supports the internal auditors' evaluation and judgment about the findings' significance.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 14.4 Recommendations and Action Plans

Internal auditors will promptly discuss the findings and potential recommendations or action plans with the management authorized to make and oversee changes to the activity under review. The chief audit executive will create a methodology to help internal auditors identify the appropriate management. For example, the methodology requires that only a given role or level (such as a manager, director, or vice president) has such authority.

If a specific corrective action addresses a finding, internal auditors will communicate it as a recommendation. Alternatively, internal auditors will present multiple options for management to consider. In certain cases, internal auditors will suggest management research options and determine the appropriate course of action. A single finding may have multiple recommendations or corrective actions.

If the internal auditor and the management of the activity under review disagree about the engagement results, the chief audit executive will work with senior management to facilitate a resolution. Additionally, each party may attach a formal statement to the final communication or make it available upon request.

Internal auditors will evaluate and discuss with management the feasibility and reasonableness of the recommendations and/or action plans. The evaluation will include a cost-benefit analysis and determination of whether the recommendations and/or action plans address the risk satisfactorily in accordance with the University's risk tolerance.

Although internal auditors must collaborate with management on how to address the engagement findings, it is management's responsibility to implement actions to address the findings. (See also Procedure 15.1 Final Engagement Communication.)

Procedure 14.5 Engagement Conclusions

The chief audit executive's methodologies for the internal audit function will provide a rating scale indicating whether reasonable assurance exists regarding the effectiveness of controls. For example, a scale indicates satisfactory, partially satisfactory, needs improvement, or unsatisfactory depending on the internal auditors' assessments. (See also Procedure 14.3 Evaluation of Findings.)

The conclusion will add context regarding the impacts of the findings within the activity under review and the University. For example, certain findings will have a significant impact on achieving goals or managing risks at an activity level, but not at a university level.

Advisory engagement conclusions will align with the objectives and scope.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 14.6 Engagement Documentation

Documentation of the internal audit engagement through workpapers is an important part of a systematic and disciplined engagement process because it organizes engagement information in a way that enables reperformance of the work and supports engagement results. Documentation provides the basis for supervising individual internal auditors and allows the chief audit executive and others to evaluate the quality of the internal audit function's work. Documentation also serves to demonstrate the internal audit function's conformance with the Procedures.

Engagement documentation will include:

- Date or period of the engagement.
- Engagement risk assessment.
- Engagement objectives and scope.
- Work program.
- Description of analyses, including details of procedures and source(s) of data.
- Engagement results.
- Names or initials of the individuals who performed and supervised the work.
- Evidence of communication to appropriate parties.

Internal auditors will organize workpapers according to the structure developed in the work program and cross-referenced to relevant pieces of information. Internal auditors will use templates or software for developing workpapers and creating a system for retaining documentation. The result is a complete collection of documentation of the information obtained, procedures completed, engagement results, and the logical basis for each step. This documentation constitutes the primary source of support for internal auditors' communication with stakeholders, including the board, senior management, and the management of the activity under review. Most importantly, workpapers contain relevant, dependable, and sufficient information that enables a prudent, informed, and competent person, such as another internal auditor or an external auditor, to reach the same conclusions as those reached by the internal auditors who conducted the engagement.

Common workpapers include:

- Planning documentation.
- Process map, flowchart, or narrative descriptions of key processes.
- Summaries of interviews conducted, or surveys issued.
- Risk and control matrix.
- Details of tests conducted, and analyses performed.
- Conclusions, including cross-referencing to the workpaper on audit findings.
- Proposed follow-up engagement work to perform.
- Internal audit final communication with management responses.

A basic format for workpapers:

- Index or reference number.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

- Title or heading that identifies the activity under review.
- Date or period of the engagement.
- Scope of work performed.
- Statement of purpose for obtaining and analyzing the data.
- Source(s) of data covered in the workpaper.
- Description of population evaluated, including sample size and method of selection used to analyze data (testing approach).
- Name of the internal auditor(s) who performed the engagement work.
- Review notes and name of the internal auditor(s) who reviewed the work.

Subsection 15 Communicate Engagement Results and Monitor Action Plans

Internal auditors communicate the engagement results to the appropriate parties and monitor management's progress toward the implementation of recommendations or action plans.

Internal auditors are responsible for issuing a final communication after completing the engagement and communicating the engagement results to management. Internal auditors continue to communicate with the management of the activity under review to confirm the implementation of action plans.

UNIVERSITY OF TOLEDO
INTERNAL AUDIT DEPARTMENT PROCEDURE MANUAL
CURRENT AS OF January 21, 2025

Procedure 15.1 Final Engagement Communication

Internal Audit will include a statement that the department conducted the engagement in conformance with the *Global Internal Audit Standards* in the final engagement communication. Indicating that the internal audit engagement conformed with the *Standards* is appropriate only if supported by the results of engagement supervision and the quality assurance and improvement program.

The chief audit executive will provide templates and procedures.

Multiple versions of a final communication may be issued, with formats, content, and level of detail customized to address specific audiences, based upon what they know about the activity under review, how the findings and conclusions affect them, and how they plan to use the information.

When issued as a report, the final communication will include the following components, in addition to the requirements:

- Title.
- Background (brief synopsis of the activity under review).
- Recognition (positive aspects of activity under review and/or appreciation of cooperation).
- Distribution list.

The review of the final communication will verify whether:

- The work performed and documented was consistent with the engagement objectives and scope and the Procedures. (See Procedures 8.3 Quality and 12.1 Quality Assessment.)
- Relevant, dependable, and sufficient information supported clearly stated engagement results. (See also Procedure 14.1 Gathering Information for Analyses and Evaluation.)
- The department met the requirements for communicating with the management of the activity under review.

The chief audit executive determines how and to whom to disseminate the final engagement communication. A digital or printed copy of the presentation and/or a written report usually supports oral presentations.

Procedure 15.2 Confirming the Implementation of Recommendations or Action Plans

Internal auditors will use a software program, spreadsheet, or system to track the implementation of management's action plans according to the established timelines. The tracking system will indicate whether action plans remain open or are past due and provides a useful tool for internal auditors to communicate with the board and senior management. In addition, a program or system may automate the workflow from risk assessment to action plan completion. For example, the workflow may include automated emails that notify the appropriate parties regarding action plans that are nearing their target completion dates.

The methodology for confirming the implementation of management's action plans will include criteria for determining when to perform follow-up assessments to confirm that management's action plans have effectively addressed findings. Internal Audit will perform follow-up assessments for completed action plans selectively, depending on the risk's significance. Under certain circumstances, regulators will require reporting on management's action plans.

If management decides on an alternative action plan and internal auditors agree that the alternative plan is satisfactory or better than the original action plan, then they will track progress on the alternative plan until completion.