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## SECTION B-6

### ANNUAL AUDIT PLAN

The Texas Government Code, Board of Regents Audit and Compliance Committee Charter, and Board of Regents Audit Policy require the Internal Auditing Department to prepare a risk based audit plan and present it to the Board of Regents for approval. The methodology we use in preparing this analysis consists of the following phases: (1) identification of auditable areas, (2) input from management, and (3) a risk analysis, as described below. Matters that we consider in establishing audit work schedule priorities include (a) the date and results of the last audit; (b) financial exposure; (c) potential loss and risk; (d) requests by management; (e) major changes in operations, programs, systems, and controls; and (f) opportunities to achieve operating benefits. During the risk analysis, we assign numerical risk factors depending upon the following: (1) reason for the audit, (2) administrative oversight, and (3) date last audited.

In addition, the Texas Internal Auditing Act requires the Board of Regents to approve the Audit Plan and periodically review the resources dedicated to the Internal Audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame. As part of the Annual Audit Plan, we include information regarding the Internal Audit Team and the department's salary/M&O budget. We also indicate whether or not the resources dedicated to the Internal Auditing program are adequate.

The Long Range Internal Audit Plan and Risk Analysis help provide the Audit and Compliance Committee with assurance that it is providing the necessary oversight over the quality and integrity of the accounting, financial reporting practices, system of internal controls, institutional management practices, and the direction of the internal auditing function.

**Identification of Auditable Areas:** Auditable areas can be categorized in each of the following categories:

1. **Annual assistance to external auditors**
  - State Auditors Office (SAO): Projects included in the SAO's annual audit plan, including SACS accreditation reviews, and special projects upon request
  - External CPA firms: Audits of KUHT, KUHF, Endowment Fund, Athletics, and Charter School
2. **Annual mandates**
  - Follow-up activity required by the Institute of Internal Auditors (IIA) Standards
  - Chancellor/Board of Regents Travel and Entertainment reimbursements requested by Board of Regents/Chancellor
  - Foundation audits requested by Board of Regents
  - Financial Aid based on risk assessment and State Auditor suggestion

- Special projects and police investigations required by institutional policy and IIA Standards
  - Texas Higher Education Coordinating Board: ARP/ATP Grants, Facilities Audit (5 year cycle), and Technology Workforce Development Grants
  - NCAA Rules-Compliance and football attendance audits required by NCAA rules
3. **Departmental Reviews:** These compliance reviews test 15 different areas of compliance for system and campus policies. These reviews are conducted every 5 years for all departments within the system. Many of the policies tested are directly related to internal controls.
  4. **Functional Reviews:** These engagements are operational reviews for efficiency/effectiveness and are conducted for all divisions and service organizations within the system.
  5. **Information Technology Reviews:** The security reviews are required by Texas Administrative Code, and various other information technology areas are addressed based on risk.

**Input from Management:** A series of meetings are scheduled with key management personnel throughout the system and with the Chair of the Audit and Compliance Committee to identify sensitive or high exposure areas and to identify high risk functions, information technology, and compliance areas that are hot topics in the higher education industry that should be scheduled for review. Comments are also requested on the Internal Audit Plan and Risk Analysis from all Audit and Compliance Committee members at the August Audit and Compliance Committee meeting.

**Risk Analysis:** Risk assessment techniques are employed to identify auditable areas and to ensure that the accounting systems and controls, the administrative systems and controls, and other major systems and controls are reviewed on a periodic basis. Coverage of key departments and functions at planned intervals has been designed into the plan to assure that no significant auditable area has been overlooked. Each auditable area has been evaluated as to its risks and other functions which might determine the urgency and frequency for performing an audit. In addition to an analytical review of all significant financial data for each campus, the risk evaluation and scheduling process included requests for input from all campus presidents, fiscal officers, and other key personnel. Once the risk assessment is completed, each auditable area is included in the audit schedule for the next three fiscal years or later.