

## **Emory University's Quality Assurance Review: Self-Assessment with Independent Validation**

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### **Emory University Vision Statement**

Emory: A destination university internationally recognized as an inquiry-driven, ethically engaged, and diverse community, whose members work collaboratively for positive transformation in the world through courageous leadership in teaching, research, scholarship, health care, and social action.

### **About Emory**

The University consists of an outstanding liberal arts college, highly ranked professional schools, and one of the larger and more comprehensive healthcare systems in the Southeast. The Emory University Internal Audit department consists of 6 audit professionals providing a full range of risk and assurance services to the University and Healthcare system.

### **Introduction**

The International Professional Practice of Internal Auditing Standard 1312 requires internal audit departments to obtain an external assessment from a qualified independent reviewer prior to January 1, 2007, and at least once every five years thereafter. With January 1, 2007, fast approaching, Emory's Internal Audit Division began a process in June 2005 which resulted in a self-assessment with independent verification.

### **Does Emory want to comply with Standard 1312?**

This is an unusual question for an internal audit department, but one that needs to be answered before beginning the process. To illustrate the reason for this question, some historical perspective is necessary:

Emory's University Internal Audit Charter makes no mention of the Institute of Internal Auditors (IIA) Standards. This omission is intentional. The IIA is a professional membership group (not a regulatory agency) and compliance with the Standards is voluntary. Emory is free to implement any IIA Standards which are determined to be cost effective best practices. A decision not to comply with any IIA Standard is deemed by management and the Board of Trustees' Audit Committee to be an acceptable risk.

Nevertheless, Emory's Internal Audit Division strives to generally conform to IIA Standards, and our division's leadership believes that an external quality assurance review provides a valuable assessment of internal auditing practices.

## **Governance Views**

The possibility of having an external quality assurance review was discussed at the June 2005 Emory University Audit Committee meeting. At this point in time, the Emory Internal Audit Division was finalizing its transformation from an externally provided service (i.e., internal audit staff was provided by a public accounting firm) to an internally provided service (i.e., new internal audit staff joined the division between September 2004, and September 2005) with contracted support from our co-sourced provider.

The Audit Committee members determined that while an external quality review would be of potential value; such a review should not take place for 2-3 years. This would enable an external review to focus on the new internally staffed, rather than the prior externally staffed, Internal Audit Division. Such a timeline would not meet the requirements of the IIA external quality review deadline.

## **Self-Assessment with Independent Verification as an Alternative**

Emory's Chief Audit Officer still believed that assessing the Internal Audit Division's compliance with the IIA Standards would be a valuable exercise. An investigation began to determine acceptable, cost effective methods to achieve compliance with IIA Standard 1312. During this review, the idea of performing a self-assessment with independent verification was identified as a possibility. Support for this idea was generated by reviewing the July/August 2004 Audit Wire article titled "Is Self-assessment With Independent Validation Right For You?". Key concepts taken from the article were:

- Self-assessment with independent validation is an acceptable approach to comply with Standard 1312 (confirmed by reading Practice Advisory 1312-1).
- The scope of a self-assessment with independent verification can be set by the Chief Audit Officer.
- The IIA's Vice President of Quality Auditing Services indicated in the article that "the shorter validation approach is effective in that it allows an internal audit activity to determine if it is in compliance with the Standards; however, the full QA team approach goes further in that best practices are looked at thoroughly, the information technology function is examined in detail, and consulting services are reviewed carefully" Cited in the July/August 2004 Audit Wire article titled "Is Self-assessment With Independent Validation Right For You?"

The self-assessment approach matched Emory's Internal Audit Division's objective of assessing compliance with the Standards. A review of best practices was not deemed necessary because of existing quality review processes to obtain feedback which includes:

- An Audit Committee self-assessment in 2006
- Current rigorous 360 degree performance review process

### **Self-Assessment Process**

Once Internal Audit decided to perform a self-assessment, the Emory Director for Healthcare Internal Audit was selected to perform the self-assessment of the Emory University audit function. Relevant factors that made this individual a perfect choice for the assignment included:

- He was new to Emory and did not have ownership in prior division operations.
- He had previous experience performing internal quality assessment reviews at his previous employer, and as a member on an IIA sponsored quality assurance team.

The self-assessment consisted of several significant steps:

- Completion of the IIA self-study and program steps as detailed in the IIA quality assurance performance materials.
- Reviewing key documents (e.g., Audit Committee Charter, Internal Audit Charter, Audit Risk Assessments and Annual Audit Plans, prior Audit Reports, Audit Follow Up reports, Audit Committee packages) to determine compliance with relevant IIA Standards.
- Performing a comparison of current Internal Audit Division practices to the IIA Standards. Using an Excel spreadsheet, all IIA Standards were listed. Statements detailing how Emory complies with each Standard, and any opportunities for improvement, were documented beside each Standard.
- Summarizing results in a formal report that was presented to the Chief Audit Officer. The self-assessment report stated that Emory University **generally conforms** with the IIA Standards (“generally conforms” is the term utilized by the IIA when conducting quality assessment reviews)

### **Selection of Independent Verification Team**

With the self-assessment complete, the Internal Audit Division began considering how to obtain an independent verification. Initially our thoughts were to utilize an outside independent organization (public accounting firm or the IIA) with experience providing quality assurance reviews. Discussions with Quality Assurance personnel from a key public accounting firm were held, and Emory’s Internal Audit Division quickly determined that the external firms would be unable to provide the type of service desired due to:

- Unwillingness to limit the review to just an assessment of whether Emory’s Internal Audit Division complied with the Standards.
- The cost of the service.

After ruling out an external firm, Emory's Chief Audit Officer decided to approach a group of local Chief Audit Officers to determine if they would be interested in utilizing a self-assessment with independent validation approach and perform mutual independent verifications. Practice Advisory 1312-1 "External Assessments" defines the following qualifications for an external reviewer:

- Reviewer should be independent of the organization and of the internal audit activity.
- Review team should consist of individuals who are competent in the professional practice of internal auditing and the external assessment process.
- Competence is demonstrated by the reviewer being:
  - A competent, certified audit professional, e.g., CIA, CPA, CA, or CISA, who possesses current knowledge of the Standards.
  - Well versed in the best practices of the profession.
  - Have at least three years of recent experience in the practice of internal auditing at a management level.

The following individuals were deemed to meet these criteria and were invited to participate in a lunch meeting to discuss the self-assessment with independent verification process:

- Rob Clark, CIA, CBM, Director of Internal Audit at Georgia Institute of Technology – Rob has vast experience as a leader in several professional organizations (ACUA, IIA), has been certified by the IIA in quality assessment review techniques, and has participated on several external quality assessment reviews.
- Barbara Jessup, CPA, VP Internal Audit at Popeye's – As the VP of Audit at a for-profit company, Barbara has recent experience with Sarbanes-Oxley, including Section 404.
- C.O. Hollis, CIA, CPA, Director Internal Audit at Morehouse College – C.O. has a vast wealth of professional experience in internal audit, including his stint with Morehouse as leader of a one person audit shop (familiarity with challenges faced by a small internal audit department).

At the lunch meeting, the approach envisioned by the Emory University Internal Audit Division was shared and discussed, including the following information:

- the IIA article on Self-Assessment with Independent Verification,
- the results of our self-assessment,
- the proposed scope Emory would ask the independent verification team to perform, and
- proposed language for the independent verifiers to attest to at the completion of the review.

Initially the Emory Internal Audit Division members thought that the independent verifications could be performed in a rotation (one individual is an independent verifier for our self-assessment; we serve as independent verifier for another organization, etc.). However, the group suggested that the independent verification be performed by all three members (the independent verification team). The benefits being:

- Increased independence brought to the review by having a group opinion.
- Increased opportunities to offer valuable comments and suggestions through the group's diverse backgrounds, experiences and expertise.
- Opportunity for all to learn together how best to perform an independent verification.

With all team members supportive of the approach and willing to participate, a date was selected for the team to reconvene at Emory to perform the independent verification. All self-assessment material was turned over to the independent verification team for their review.

### **Independent Verification Results**

On the day of the independent verification, the team members performed separate interviews with key members of the Internal Audit division, including: the Chief Audit Officer, the Directors of the Internal Audit Function, and the public accounting firm engagement leader (oversaw the outsourced services provided).

At the completion of the interview process, the independent verification team was allowed time to deliberate and compare notes. A close out meeting was held at the end of the day to obtain the results. For the Emory University Internal Audit Division, this was a satisfying completion of this important initiative. The independent verification team reported that Emory University's Internal Audit Division **generally conforms** with the IIA Standards. A verbal discussion of opportunities for the Emory Internal Audit Division to consider followed and was summarized in an internal memo. The results of this process will be reported to the Audit Committee of the Board of Trustees at their next scheduled meeting.

### **Conclusion**

Emory Internal Audit Division's primary responsibility is to enhance Emory's risk management and internal control environment through leadership, education and assurance activities. In order to fulfill these responsibilities and support Emory University's vision of being a destination University, the Emory Internal Audit Division employs universally recognized internal auditing best practices as advocated by the IIA Standards. Obtaining periodic external review of our auditing practices provides Emory management and the Audit Committee comfort that the Emory Internal Audit Division is providing world class services.

The self-assessment review with independent verification is an effective and value added approach to complying with the IIA Standards. The process provided Emory University's Internal Audit Division with a comfort level regarding compliance with the Standards, provided better insight and knowledge about our processes, identified a few opportunities to improve services, and was performed in a cost efficient and value added manner. The opportunity to dialog with Chief Audit Officers from other organizations was a tremendously valuable part of the review, enabling us to obtain real world feedback on the effectiveness of Emory University Internal Audit Division practices. The independent verification team has agreed to continue meeting, and will perform independent verifications at the other team members' organizations. Emory University Internal Audit is excited to participate as part of the independent verification team. We are looking forward to learn how other progressive internal audit departments comply with the IIA Standards, and to bring back new ideas to Emory University.