

UNIVERSITY OF HAWAI'I

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EXECUTIVE POLICY - ADMINISTRATION

June 1980

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 E8.204 University Audit Plan

I. PURPOSE

The Board of Regents and the President of the University are responsible for the proper and effective operation of the University, and through the Vice-Presidents and Chancellors, of the several constituent units which make up the University. To assist the Board of Regents, the President, Vice-Presidents, and the Chancellors in carrying out their responsibilities, periodic audits and reviews shall be conducted of the organization, management controls, and internal accounting controls by qualified professional staff of external and/or internal auditors, consultants, and specialists, procured or assigned, and directed by the President or his designee.

This policy establishes a broad framework under which such audits and reviews shall be procured, assigned, and conducted.

II. REFERENCES

The Board of Regents has created and assigned to an Ad Hoc Committee within its Standing Committee on Finance the responsibility for exercising general oversight and policy direction for the external audit program. Specifically, the major functions of the Committee are:

1. To review and approve an annual external audit plan prepared by the University of Hawai'i staff which would specify the objectives, types of audits, and programs to be audited for the year.
2. To review the major findings and recommendations of the University of Hawai'i external auditor and monitor the actions taken to implement recommendations.
3. To recommend policies to the Committee on Finance.
4. To maintain direct contact with the external auditors as needed, to insure the independence of the auditor.
5. To review any and all matters relating to external audit policies and procedures. (Adopted October 12, 1979)

### III. ADMINISTRATIVE POLICIES

1. Types of Audits and Reviews. Audits and reviews shall be conducted for specific purposes as determined by the President or his designee. Such audits and reviews may include, but not be limited to, financial statement audits, financial management/internal control audits, financial statement and compliance audits, functional audits, fiduciary audits, limited scope special audits, and unscheduled audits. (See Appendix A)
2. Frequency of Audits and Reviews. Frequency of audits and reviews shall be determined by the President or his designee. They may range from annual audits to one audit in eight years, depending on the relative risks involved, staff available, requests from Chancellors and other responsible officers, and the interests of third parties.
3. Selection of the Examinees. The President or his designee is responsible for the selection of specific examinees. However, Chancellors and other responsible officers may also request that specific programs, functions, and organizational units be audited. In selecting examinees at least the following shall be considered:
  - a. Audits required by external needs
    - (1) Bondholders
    - (2) Federal or other granting agencies
  - b. Requirements of the annual financial statement of the University prepared for the Board of Regents.
4. Components of the University Audit Plan. The University Audit Plan shall include (1) a general audit plan covering audits to be conducted during a planning period which shall extend at least six years; (2) a detailed audit work plan covering a two-year period which shall be approved by the President; and (3) an annual external audit plan which shall be reviewed and approved by the Ad Hoc Committee of the Board of Regents.
5. Operational Responsibility for the Development and Implementation of the University Audit Plan. The Vice-President for Administration shall be responsible for the development and implementation of the University Audit Plan.



6. Responsibility for Responding to and Implementing Audit Recommendations. Each Vice-President and Chancellor or designee shall be responsible for supervising and approving all responses to and for implementing the auditors' and consultants' recommendations accepted by the University.
7. Funding of Audits and Reviews. Each examinee unit shall be responsible for its proportionate share of all auditing and review costs as determined by the President or his designee. An annual estimate of audit and review costs and proposed assessments shall be prepared by the University Director of Finance after appropriate discussions with Chancellors and other responsible officers or their designees for the approval of the President or his designee. If necessary biennial budget requests shall include anticipated external audit cost requirements.
8. Selection and Appointment of Auditors and Consultants. The selection and appointment of auditors and consultants required by this policy shall be by the President or his designee, after consultation with such external agencies as may be required by law and policy.

#### IV. ADMINISTRATIVE PROCEDURES

Procedures for implementing the provisions of this Policy Paper shall be developed under the direction of the Vice-President for Administration and shall be issued as a Business Manual Instruction.

UNIVERSITY OF HAWAI'I AUDIT PLAN

Appendix A - Types of Audits

1. Financial Statement Audits: Audits where the primary objective is to obtain an attestation by external auditors to the fairness of the University's financial statements.
  - a. Should be procured only when there is a need for such attested financial statements -- e.g., to meet federal requirements -and to meet minimum requirements only.
  - b. Management letters should result only if major deficiencies are found which should be reported to the President and the Board of Regents.
  - c. Minor exceptions may be reported to the President or his designee for follow-up and corrective action.
  
2. Financial Management Operational Audits: Audits which specifically focus on the adequacy of financial management systems and internal control systems. Do not normally require financial statements.
  - a. Procured to meet administrative needs to evaluate system adequacy and managerial competence, i.e., efficiency and effectiveness of the financial management system for the purpose of making improvements. Should be procured as needed by the examinee, or when the Board of Regents, President or other responsible officer determines there is a need.
  - b. These audits should not be procured until the examinee has had an opportunity to implement changes recommended in a previous audit (if any).
  
3. Financial Statements and Compliance Audits: Audits undertaken to comply with extramural funding source requirements for such audits (such as federally required audits).
  - a. Procured only as required by funding agency.

- b. may sample by funding agency rather than apply rule to each program or grant,

4. Functional Audits

These audits are evaluations of processes which normally cut across organizational lines, while foregoing audits are of programs and other complete organizational units.

- a. Should be procured on a continuous basis with financial management audit, or with financial statement audit as deemed necessary.
- b. Basically undertaken to determine the adequacy, efficiency and effectiveness of existing financial procedures and related internal controls.
- c. Examples: sales, accounts receivable, cash collecting procedures, purchasing, accounts payable, and inventory procedures.

5. Fiduciary Audits:

These are special audits for the orderly transfer of assets between custodians resulting from staff changes, such as changes in provost, deans, directors, or chancellors. May also be appropriate when there is a change in fiscal-officers or cashiers where large sums of assets, especially cash, are involved or where discretionary use is available.

- a. Should be procured only where substantial resources are involved and where the fiduciary (responsible person) is changed. May also be procured at the request of the incoming fiduciary.

6. Limited Scope Special

There are engagements which do not fit into the above categories, utilizing the services of auditors and/or consultants, for purposes such as

- a. Determination of efficiency of operations.
- b. Determination of extent of program effectiveness.
- c. Evaluation of effectiveness of internal control system or financial management system.
- d. Evaluation of adequacy and reliability of security systems.
- e. Should be procured only on an "as needed" basis.

7. Unscheduled Audits:

Audits which are not included in detailed audit work plan, but which are necessary because of reasons such as the following:

- a. Fiduciary audits when there are sudden changes in responsibility due to death, departure, promotion} etc.
- b. Surprise cash management and inventory audits requested because of detected weakness in control system, increase in risk, suspected fraud, etc.