



Internal Controls In Higher Education

A Queen's University Experience

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About Queen's



- Established in 1841 by Royal Charter
- Located in Kingston, Ontario
- 23,500 students
- 3,342 Faculty
- 4,947 Staff
- 6 faculties
- Assets of \$2.2B
- Net assets of \$1.2B



About PwC



- Dedicated Higher Education Advisory Practice
- Assurance, Advisory and Tax Services
- Over 50 Clients across Canada
 - Academic Research Institutions
 - Colleges
- Part of broader North American Education Network, which serves as auditor to:
 - Nearly 120 colleges and universities
 - Four of the 8 Ivy League institutions
 - Ten of top 15 medical schools
 - Seven of the top 10 schools of engineering

Canadian University Clients

- *University of British Columbia*
- *Simon Fraser University*
- *University of Calgary*
- *University of Alberta*
- *Athabasca University*
- *University of Lethbridge*
- *University of Saskatchewan*
- *University of Manitoba*
- *University of Ontario Institute of Technology*
- *Guelph University*
- *Nipissing University*
- *University of Ottawa*
- *Carleton University*
- *Ryerson University*
- *York University*
- *University of Toronto*
- *McMaster University*
- *University of Waterloo*
- *Queen's University*
- *Concordia University*
- *McGill University*

What are internal controls?

- Activities that organizations put in place to mitigate risks and provide reasonable assurance in the following broad categories:
 - The effectiveness and efficiency of programs, operations and resource management, including safeguarding of assets;
 - The reliability of financial reporting; and
 - Compliance with legislation, regulations, policies and delegated authorities.
- Internal controls are an integral part of the existing risk management frameworks and core management practices that are in place.

Why did Queen's launch the Internal Controls Project?

- To demonstrate that adequate internal controls are in place within the university.
- Outcome demonstrates accountability to the Board of Trustees



What is the Internal Controls Project?



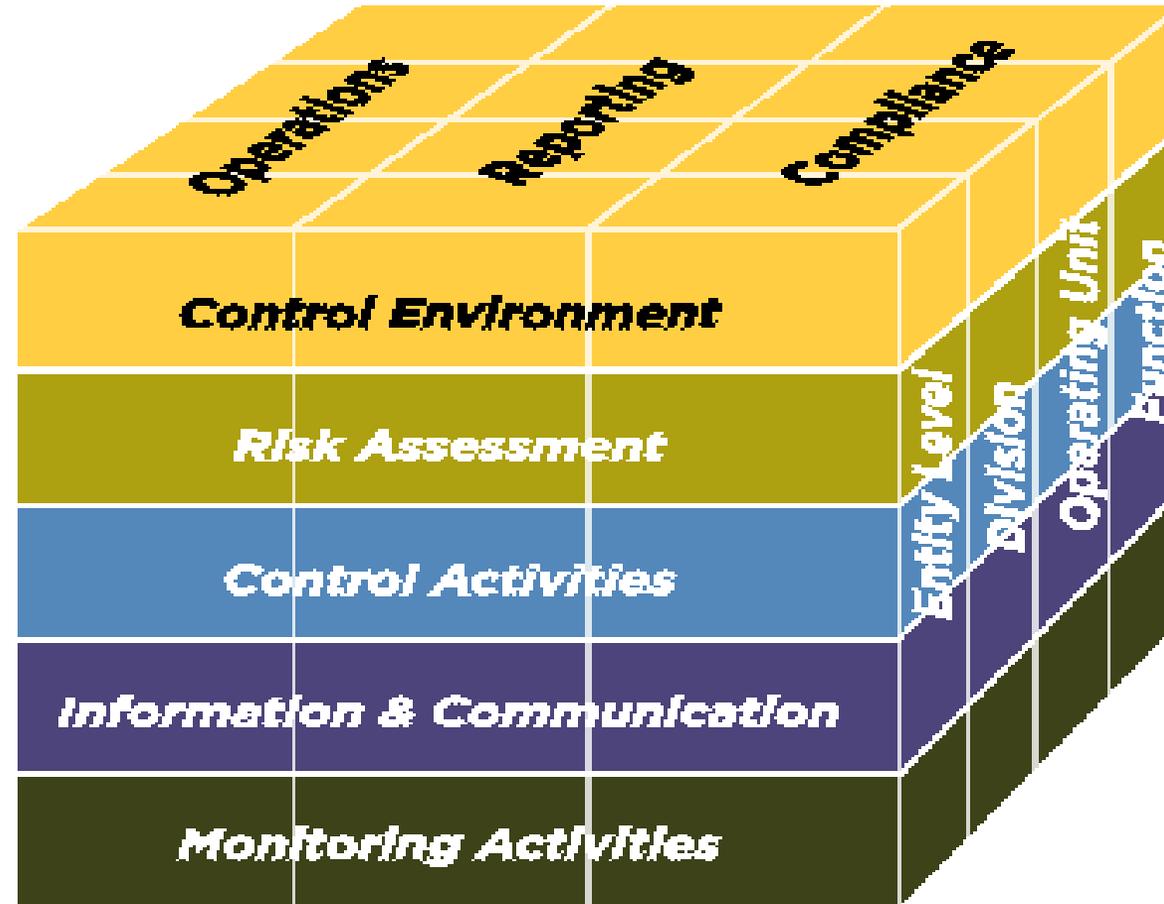
Objective:

- Risks relating to the stewardship of resources are adequately managed through **effective internal controls**.
- Focus also on **efficiency** and **best practices** on the campus

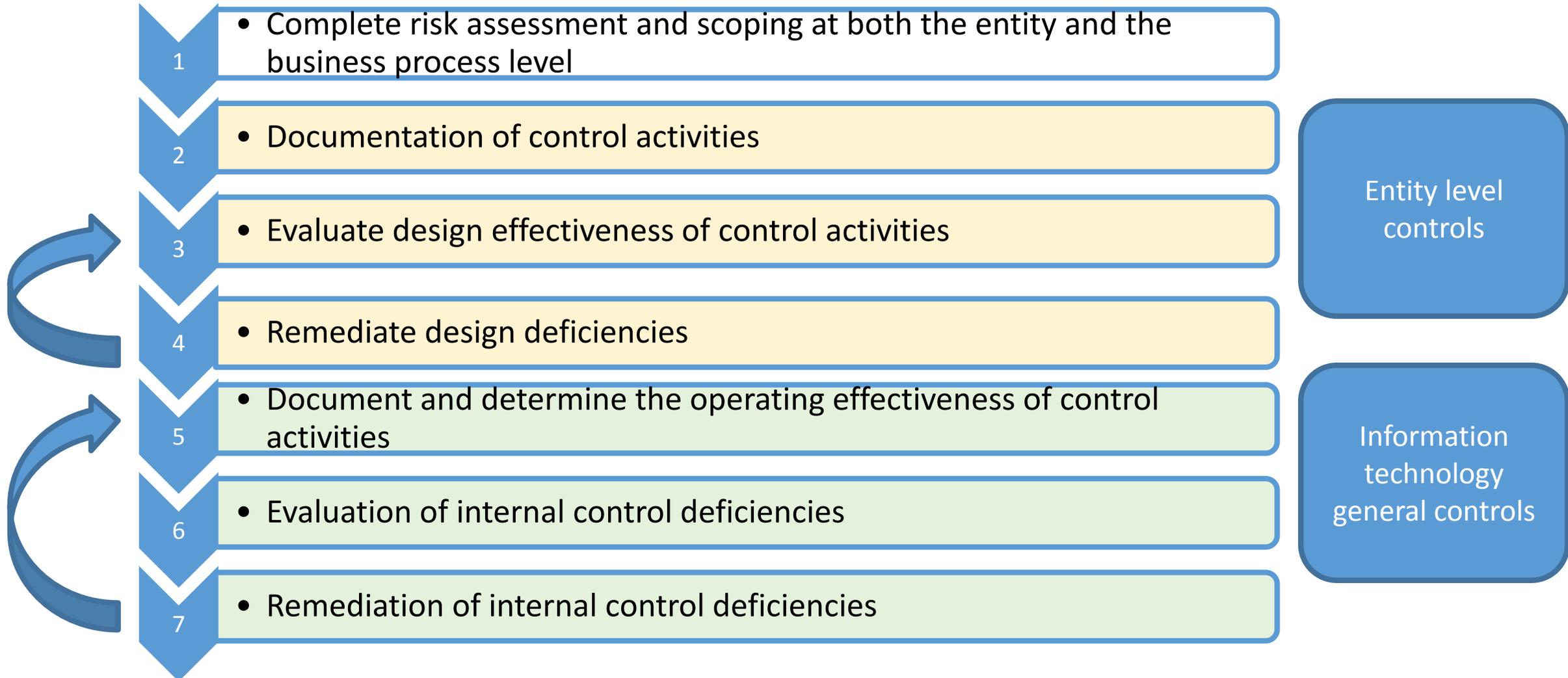
Long-Term Expected Results:

- Effective management of financial risks through effective internal controls.
- Evidence of effective internal controls.
- Ongoing monitoring program

Internal Controls over Financial Reporting (ICFR) Framework



The Roadmap



Entity level and IT General Controls

Risks assessment and review of **Entity Level Controls** concluded on an elevated level of inherent risk:

- Financial sustainability risks
- Current state of most internal controls is informal
- Accountability rests with centralized, administrative functions, but authority has been delegated to faculties (misalignment)
- Reporting / regulatory reporting requirements are increasing



IT General Controls

- Includes things like the IT control environment, program development, program changes, access to programs and data, and computer operations
- Queen's is focussing first on remediating deficiencies identified in a general IT Security review

1. Entity level risk assessment focuses on business risks that have an impact on the system of internal control.

2. Process mapping

- Identify relevant business processes using financial statements
- See example in appendix

3. Process level risk assessment

- Consider characteristics that increase risk:
 - Complexity of the process
 - # of transactions
 - Centralized or decentralized?
 - Reputational risk
 - Fraud risk
 - Other (internal audit findings, etc.)



Processes for Scoping	Process Characteristics						Overall Risk Score	Overall Risk Level (High, Moderate, Low)
	Impact (High, Moderate, Low or N/A)	Complexity of Process (High, Moderate, Low, N/A)	Volume of Transactions (High, Moderate, Low, N/A)	Decentralization of Process Activities (High, Moderate, Low)	Reputational Risk (High, Moderate, Low)	Inherent Fraud Risk (High, Moderate, Low)		
weighting	20	25	15	30	10	10		
HIGH	25	25	25	25	25	25		
MODERATE	15	15	15	15	15	15		
LOW	5	5	5	5	5	5		
Payroll	25	25	25	25	5	25	23.2	High
Research	25	25	25	25	25	15	24.1	High
Purchases, Payables and Payments	25	15	25	25	15	15	20.9	High

This table represents the inherent risk of business processes (before any controls are put in place)

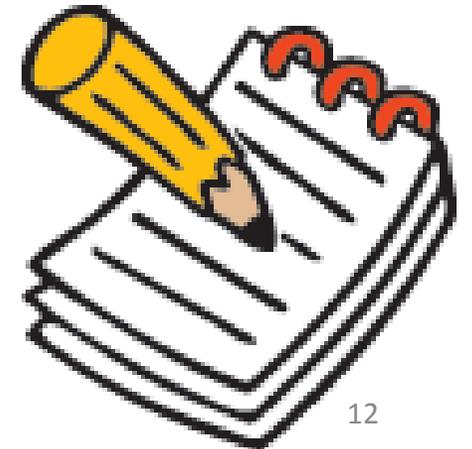
Business Process Documentation and evaluation

Provides answers to the following questions:

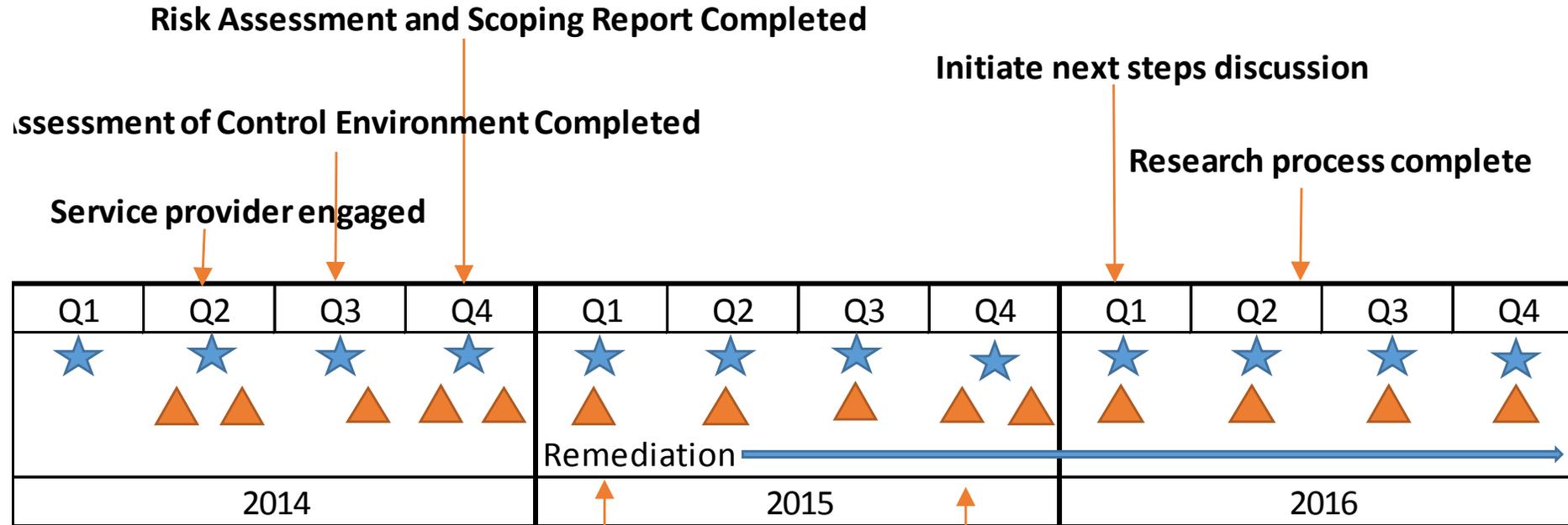
1. What is the risk being mitigated?
2. What is the control activity (when applicable)?
3. Why is the activity performed?
4. Who (or what system) performs the control activity?
5. When (how often) is the activity performed?
6. What mechanism (reports and systems) is used to perform the activity?

Outputs:

- Process description (narrative format)
- Process description (flowchart format)
- Risk control Matrix
- Identification of opportunities for improvement
- Recommendations for mitigation and improvement
- Overall reporting



Timing of activities



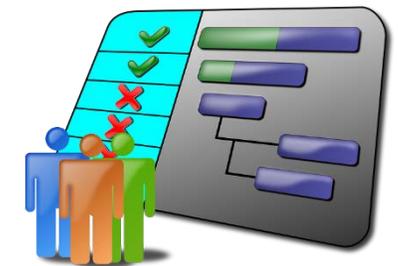
Report to Audit and Risk Committee



Report to Internal Controls Steering Committee

Assessment of P2P completed

Assessment of payroll process completed



Options around overall Internal Controls Program maintenance are still being discussed. Possibilities include:

- Evaluate design and operating effectiveness for only high risk processes (3 out of 18 processes); or
- Evaluate design and operating effectiveness risk and **some** or **all** moderate risk processes

In either case, Queen's will likely:

- Begin operating effectiveness testing on high risk processes (even if all remediation is not complete)
- Implement an annual sign off process



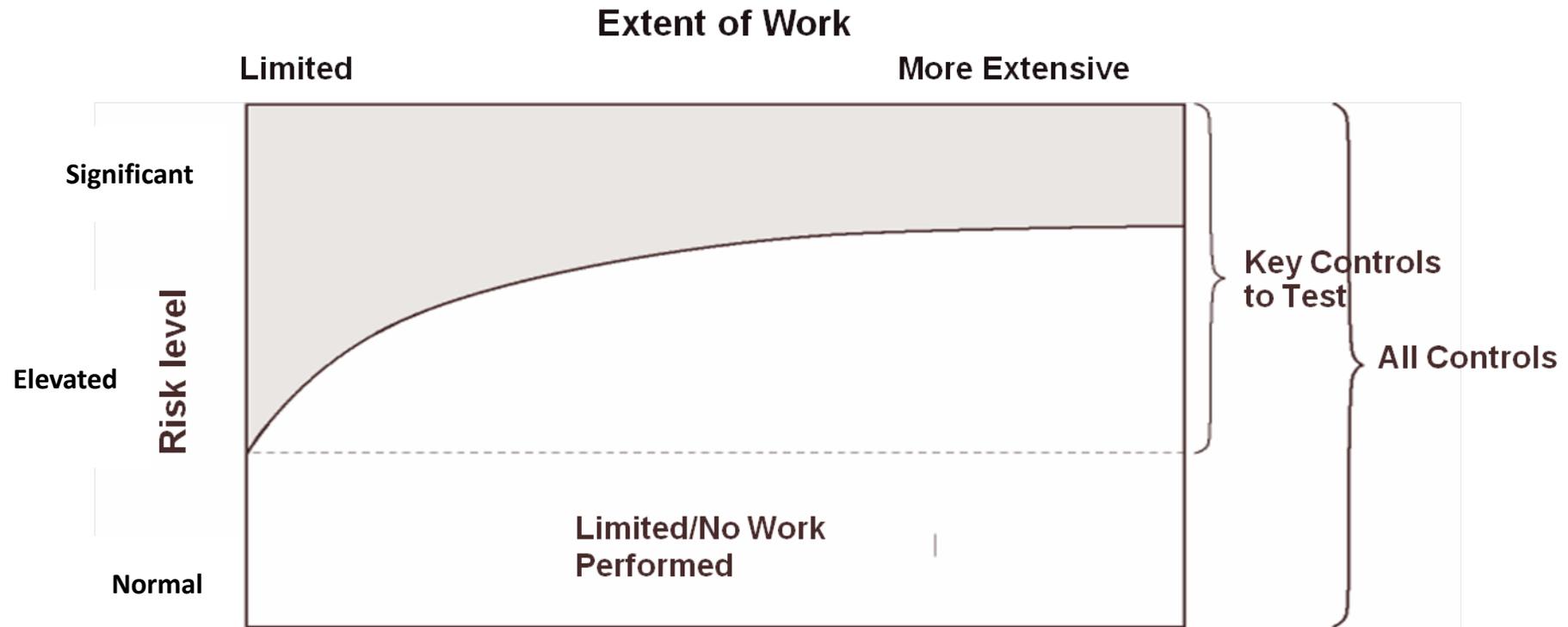
Key success factors and lessons learned



1. Focus on the areas of highest risk
2. Governance and engagement
3. Understand the environment

Focus based on risk

To optimize resources, efforts must be focussed only on the areas of highest risk



How you do things is just as (or more) important than what you do

Stakeholder involvement is KEY on all areas of the project

- Governance and project structure
- Scoping, documentation and evaluation
- Remediation



Governance and engagement: Project structure

Audit and Risk Committee

- Oversight of project

Vice-Principal, Finance and Administration

- Project Sponsor

Steering Committee

- Co-Chaired by Controller and Director, Internal Audit

Remediation Working Groups

- Groups formed to remediate gaps in decentralized processes

Benefits of extensive stakeholder involvement

- Promotes understanding of end to end processes, and how units “fit”
- Promotes an appreciation for different practices even within faculties and departments
- Assists in identification of best practices
- Promotes business centric solutions that will work for stakeholders
- Identifies opportunities to standardize or streamline
- Increases engagement of faculties and other units
- Promotes ownership and understanding of issues and remediation

External Environment

- What are other universities doing?
- What initiatives exist in the broader public sector?
- Expectations of external stakeholders (regulators, donors, members of the public)

Having this understanding helps put the project in the proper context with internal and external stakeholders.





Internal Environment

- What does the Audit Committee expect?

Key point: Understand concerns

- Why should we do this?
- Internal controls increase bureaucracy
- I don't have time for this
- I don't have these problems in my business unit

This understanding is key to highlight where value needs to be demonstrated to get buy in.

The Internal Controls Project has brought several benefits to Queen's:

- Higher awareness and better understanding of risks, controls, and processes;
- Identification of opportunities for process improvement;
- Faculties are working with shared services to remediate gaps in internal controls;
- More structured framework to measure and monitor internal controls.
- Internal control gaps are being remediated



Thank you and questions



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Extra
information

Scoping example

To identify business processes to be evaluated, financial statement line items are broken down into the processes that feed them

	2013	
		PRELIMINARY PROCESS SCOPING
REVENUES		
Grants and contracts	\$356,501	Operating Grants, Research, Other grants
Fees	233,095	Fees
Ancillary sales of service and products	77,841	Ancillary Sales
Donations	21,522	Advancement
Amortization of deferred capital contributions	26,676	Advancement, Other grants
Other	21,496	Other revenue
Investment income (note 8)	62,033	Investments & Endowments
	<u>799,164</u>	
EXPENSES		
Salaries and benefits	433,193	Payroll, Pension
Supplies and services	118,164	Purchases, Payables, Payments
Student assistance	57,186	Student Assistance
Amortization of capital assets	53,001	Capital Assets
Externally contracted services	50,979	Purchases, Payables, Payments
Utilities and insurance	20,870	Purchases, Payables, Payments
Travel and conferences	16,844	Travel
		Purchases, Payables, Payments, PPS project management
Renovations and alterations	13,607	
Interest on long-term debt	12,371	Long Term Debt
	<u>776,215</u>	
Excess of revenues over expenses	<u>\$ 22,949</u>	