

East Tennessee State University Policy

Policy Title: Internal Audit

Policy Type: Finance/Administration

New/revised: Revised

Old Policy #: 4:01:05:00

Approval level: Board of Trustees [Select box for appropriate level of anticipated final approval]

President

Vice President

Other (specify here)

Purpose: This policy addresses staffing, responsibilities of the internal audit function, audit planning and reporting on internal audit activities.

Policy:

I. General Statement

- A. The internal audit function contributes to the improvement of the institution's operations by providing objective and relevant assurance regarding risk management, control and governance processes to management and the Board of Trustees.
- B. Management is responsible for evaluating the institution's risks and establishing and maintaining adequate controls and processes.
- C. To provide relevant information, the internal audit activity will consider the goals of the institution, management's risk assessments and other input from management in determining its risk-based audit activities.

II. Internal Audit Standards

- A. Each internal audit function shall adhere to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics (TCA § 4-3-304(9)). The Institute of Internal Auditors, International Professional Practices Framework (IPPF), incorporates the definition of internal auditing, the *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics into one document. It includes the following definition of internal auditing:
 1. Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- B. Risk is the possibility of an event occurring that will have an impact on the achievement of an institution's goals and objectives.
 1. Risk is measured in terms of the impact an event may have and the likelihood that the event will occur.

2. To optimize the achievement of the institution's goals and objectives, the Board of Trustees and management act to minimize the related risks by implementing reasonable procedures to control and monitor the risks.
- C. Governance processes are the combination of processes and structures implemented by the Board of Trustees to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.
 1. Examples of such processes include:
 - a. The organizational structure within an institution or a department;
 - b. Policies, guidelines and procedures instituted by the Board of Trustees or management to direct and control a particular activity such as maintenance fees or hiring practices; and
 - c. Preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.
- D. The IPPF includes attribute standards, which address the expected characteristics of organizations and individuals performing internal audit activities and performance standards, which describe the nature of internal audit activities and establish criteria to evaluate the performance of internal audit activities.
- E. To assure compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external assessments.
 1. Internal assessments are ongoing, internal evaluations of the internal audit activity, coupled with periodic self-assessments and/or reviews.
 2. External assessments enable the internal audit activity to evaluate conformance with the *Standards*; internal audit and audit committee charters; the organization's risk and control assessment; the effective use of resources; and the use of successful practices.
 3. An external assessment must be performed at least every five years by an independent reviewer or review team.
 4. Results of the external assessment will be communicated to the Audit Committee and management.

III. Internal Audit Personnel

- A. The university shall employ at least two individuals with full-time responsibility as internal auditors.
- B. Internal Audit Staff
 1. Internal audit staff must possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual responsibilities.
 2. The internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
 3. The Chief Internal Auditor must be licensed as a Certified Public Accountant or a Certified Internal Auditor, maintain an active license and annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held.
 4. Other university auditors should annually complete sufficient, relevant continuing professional education to satisfy the requirements for their related professional certification or, at a minimum, forty hours of relevant continuing professional education annually.

5. The Chief Internal Auditor should communicate concerns to management and the Audit Committee regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan.
 6. Such resources may include the need for additional personnel or personnel with specialized knowledge, such as those with knowledge of fraud, information technology or other technical areas.
- C. The appointment of the Chief Internal Auditor as recommended by the President is subject to approval by the Audit Committee (TCA § 49-14-102(a)).
 - D. Compensation of the Chief Internal Auditor is subject to review by the Audit Committee.
 - E. The termination or change of status of the Chief Internal Auditor (TCA § 49-14-102(b)) requires a majority vote of the Audit Committee.

IV. Internal Audit Role and Scope

- A. Reporting Structure
 1. In accordance with TCA § 49-14-102(b) and the Board of Trustees Bylaws, the Chief Internal Auditor reports directly to the Audit Committee.
 2. This reporting structure assures the independence of the internal audit function.
- B. The internal auditors' responsibilities include:
 1. Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
 2. Evaluating institutional controls to determine their effectiveness and efficiency.
 3. Coordinating work with external auditors, program reviewers, and consultants.
 4. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
 5. Testing the timeliness, reliability, and usefulness of institutional records and reports.
 6. Recommending improvements to controls, operations, and risk mitigation resolutions.
 7. Assisting the institution with its strategic planning process to include a complete cycle of review of goals and values.
 8. Evaluating program performance.
 9. Performing consulting services and special requests as directed by the Audit Committee or the institution's President.
- C. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.
- D. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.
- E. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.

- F. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution's objectives. Auditors continually evaluate the risk management, internal control, and governance processes. To facilitate these responsibilities, Internal Audit will receive notices or copies of external audit reviews, program reviews, fiscally related consulting reports, cash shortages, physical property losses, and employee misconduct.
- V. Audit Plans and Activity Reports
- A. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.
 - B. At the beginning of each fiscal year, after consultation with the President and other institution management, Internal Audit will prepare an annual audit plan. The audit plan must be flexible to respond to immediate issues and will be revised for such changes during the year.
 - C. Audit plans and revisions will be reviewed and approved by the Audit Committee.
 - D. At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed.
 - E. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.
- VI. Audit Engagements
- A. Audit engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations are met, auditors will communicate with management regarding the objectives and scope of the engagement.
 - B. In planning and during the engagement, auditors should consider and be alert to risks that affect the institution's goals and objectives, operations and resources. Auditors should consider risks based on the operations under review, which include but are not limited to the risk of financial misstatements, noncompliance and fraud.
 - C. An audit work program will be designed to achieve the objectives of the engagement and will include the steps necessary to identify, analyze, evaluate and document the information gathered and the conclusions reached during the engagement.
 - D. Working papers that are created, obtained or compiled by an internal audit staff are confidential and are not an open record (TCA § 4-3-304(9)).
- VII. Communicating Audit Results
- A. A written report that documents the objectives, scope, conclusions, and recommendations of the audit will be prepared for audit engagements providing assurance to the Board of Trustees and management. Management will include corrective action for each reported finding.
 - B. Internal Audit will perform audits to follow-up on findings or recommendations included in internal audit and investigation reports. For these follow-ups, a written report will be prepared for any findings or recommendations that have not been corrected and management will be asked to include a revised corrective action plan. For follow-ups in which corrections have been implemented, a memo will be placed in the working paper file documenting the reasons for the closure. In addition, Internal Audit will perform audits to follow-up on findings or recommendations included in State Audit reports and

a written report will be prepared. The President, along with the Audit Committee, will be notified at the conclusion of a follow-up audit.

- C. A written report that documents the objectives, scope, conclusions and recommendations will be prepared for investigations resulting from allegations or identification of fraud, waste or abuse. As appropriate in the circumstances, management will include corrective action for each reported finding. In a case where allegations are not substantiated by the review and there are no other operational concerns to report to management regarding the review, the case may be closed by writing a memo to the working paper file documenting the reasons for closing the case.
 - D. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
 - E. All internal audit reports will be signed by the Chief Internal Auditor and transmitted directly to the President in a timely manner.
 - F. The Chief Internal Auditor will present significant results of internal audit reports to the Audit Committee.
 - G. The Chief Internal Auditor will provide a copy of each report to the Comptroller's Office, Division of State Audit.
- VIII. Exceptions
- A. Any exceptions to the policy established herein shall be subject to the approval of the Audit Committee.