



EAST TENNESSEE STATE
U N I V E R S I T Y

Internal Audit

Policy Name: Internal Audit

Policy Purpose

This policy specifies the responsibilities of the Internal Audit function, staffing, audit planning, and reporting on Internal Audit activities.

Responsible Official, Office, and Interpretation

The Board of Trustees Audit Committee, in consultation with the Chief Audit Executive, is responsible for the review and revision of this policy. For questions about this policy, please contact the Secretary of the Board of Trustees. The Board of Trustees, in consultation with the Office of University Counsel, has the final authority to interpret this policy.

Defined Terms

A defined term has a specific meaning within the context of this policy.

Attribute Standards

Standards that address the expected characteristics of organization and individuals performing Internal Audit activities.

Governance Processes

The combination of processes and structures implemented by the Board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. Examples of such processes include: 1) the organizational structure within an institution or a department; 2) policies, guidelines, and procedures instituted by the Board or management to direct and control a particular activity such as maintenance fees or hiring practices; and 3) preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.

Internal Auditing

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.

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Performance Standards

Standards that describe the nature of Internal Audit activities and establish criteria to evaluate the performance of Internal Audit activities.

Risk

The possibility of an event occurring that will have an impact on the achievement of an institution's goals and objectives. Risk is measured in terms of the impact an event may have, the likelihood that an event will occur, and the speed to impact.

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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. Management is responsible for evaluating the institution's Risks and establishing and maintaining adequate controls and processes. 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. To optimize the achievement of the institution's goals and objectives, the Board and management act to minimize the related Risks by implementing reasonable procedures to control and monitor the Risks.

1. Internal Audit Standards.

The Internal Audit function shall adhere to The Institute of Internal Auditors' (IIA) Global Internal Audit Standards and Code of Ethics. To assure compliance with the IIA Standards, the Office of Internal Audit must implement and maintain a quality assurance and improvement program that incorporates both internal and external review activities. Internal reviews include both ongoing and periodic review activities. External reviews must be performed at least every five years by a qualified, independent reviewer. Results of the quality assurance reviews will be communicated to the Board of Trustees Audit Committee and management.

2. Internal Audit Personnel.

The university shall employ at least two full-time positions, one position will serve as the Chief Audit Executive, with the sole responsibility of serving as Internal Auditors.

2.1. Chief Audit Executive.

The Chief Audit Executive (CAE) is appointed by the President and the appointment must be approved by the Board of Trustees Audit Committee. The CAE must be licensed as a Certified Public Accountant (CPA) or a Certified Internal Auditor (CIA), maintain an active license and annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held.

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The CAE reports directly to the Board of Trustees Audit Committee. This reporting structure assures the independence of the Internal Audit function.

Compensation of the CAE is subject to review by the Board of Trustees Audit Committee. The termination or change of status of the CAE requires a majority vote of the Board of Trustees Audit Committee.

The CAE should communicate concerns to management and the Board of Trustees Audit Committee regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan. 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.

2.2. Internal Audit Staff.

Internal Audit staff must possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual responsibilities. The Internal Audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

The Associate Director of Internal Audit must be licensed as a CPA or CIA, maintain an active license and annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held. 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.

3. Internal Audit Role and Scope

3.1. Responsibilities.

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

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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; and 9) performing consulting services and special requests as directed by the Board of Trustees Audit Committee or the institution's President.

3.2. Scope.

The scope of Internal Auditing extends to all aspects of institutional operations and beyond fiscal boundaries. Internal Auditors shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.

The scope of a particular Internal Audit activity may be as broad or as restricted as required to meet management needs. 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.

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.

4. Audit Plans and Activity Reports.

Internal Audit shall develop an annual audit plan using an approved Risk assessment methodology. 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. Audit plans and revisions will be reviewed and approved by the Board of Trustees Audit Committee.

At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.

5. Audit Engagements.

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Audit engagements will be planned to provide relevant results to management and the Board of Trustees 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. 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. 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. Working papers that are created, obtained or compiled by an Internal Audit staff are confidential and are not an open record.

6. Audit Results.

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 shall include corrective action for each reported finding. Internal Audit will perform audits to follow-up on findings or recommendations included in Internal Audit and investigation reports. The results of all follow-up reviews will be emailed to management and reported to the Board of Trustees Audit Committee including the status of each recommendation. If control weaknesses still exist, a written report may be prepared.

In addition, Internal Audit shall 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 Board of Trustees Audit Committee, will be notified at the conclusion of a follow-up audit. 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 significant 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.

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Reports on special studies, consulting services, Comptroller's Office (Division of State Audit) requests, and other non-routine items should be prepared as appropriate, given the nature of the assignment. All Internal Audit reports will be signed by the CAE, or Associate Director in their absence, and transmitted directly to the President in a timely manner. The CAE will present significant results of Internal Audit reports to the Board of Trustees Audit Committee. The CAE will provide a copy of each report to the Comptroller's Office, Division of State Audit.

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Procedures

N/A

Authority and Revisions

Authority: T.C.A. §§ 49-8-203, 4-3-304(9), 49-14-102(a), 49-14-102(b), 4-4-304(9)

Previous Policy: N/A

The ETSU Board of Trustees is charged with policy making pursuant to TCA § 49-8-203, et seq. This policy may only be revised by the Board of Trustees. Before a substantive change to the policy section may take effect, the requested changes must be: (1) presented to the Audit Committee of the Board of Trustees for review and approval; and (2) if approved by the Audit Committee, presented for a vote of the Board of Trustees and approved by a majority of the Board of Trustees. The Secretary of the Board will provide a notification to the Board of Trustees if a technical revision to this policy is implemented or a revision to the procedure section is implemented.