

## STATE SYSTEM OF HIGHER EDUCATION

### INTERNAL AUDIT CHARTER

See Also: Board of Governors Policy 1991-06-A: *State System Audit Policy*



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**Date Reviewed**

#### Purpose

The purpose of this document is to serve as Pennsylvania's State System of Higher Education's (System) Internal Audit Charter. This Charter supports Board of Governors approved Policy 1991-06-A: *State System Audit Policy* under which the Audit and Compliance Committee and the Office of Internal Audit and Risk Assessment (OIARA) operate.

#### Review

The Audit and Compliance Committee shall periodically review this Charter and assess its adequacy in achieving the goals and objectives of the Board of Governors.

#### Mission Statement

The primary mission of the Audit and Compliance Committee shall to be to assist the Board of Governors in exercising its due care and diligence in discharging System-wide oversight and monitoring responsibilities. An important objective of the Audit and Compliance Committee shall be to support and oversee the activities of the OIARA, maximizing the function's operations and value across the System.

#### Standards for the Professional Practice of Internal Audit

The Institute of Internal Auditors (IIA) established the *International Professional Practices Framework*. This framework includes mandatory elements consisting of the "Definition of Internal Auditing," the "Code of Ethics," and the "International Standards for the Professional Practice of Internal Auditing" (Standards). The System's internal audit operation is committed to, and recognizes, the *International Professional Practices Framework* and mandatory elements as an integral component of this Charter, as well as Board of Governors' and System policies and procedures.

#### Definition of Internal Auditing

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.

### **Office of Internal Audit and Risk Assessment Objectives**

1. Establish an ongoing, independent capability to review all System operations, including affiliated organizations where authorized and appropriate to:
  - a) Ensure compliance with statutes, regulations, and policies;
  - b) Review reliability and integrity of financial data, operating information, and the means used to identify, measure, classify and report it;
  - c) Make value-added recommendations for improvements regarding economy, efficiency, and effectiveness; and,
  - d) Perform appropriate follow-up procedures and assess the effectiveness of actions taken.
2. Establish an ongoing, collaborative risk assessment process managed by the OIARA and include each of the System universities and the Office of the Chancellor (OOC)
  - a. The OIARA will facilitate conversations and exercises in a multi-layered risk assessment approach initiating with a university president and senior management, then secondarily with line management and personnel in the identification of potential risks. The same multi-layered approach will be employed within the OOC through internal audit activity and reporting.
  - b. The adequacy of internal controls supporting operations will be evaluated.
  - c. Identified operations with significant operating exposure to a university and/or the OOC, and where appropriate internal controls are not evident, will be defined as a potential high risk exposure.
  - d. Potential high risk exposures at an institution will be communicated and discussed with the university's president. Potential high risk exposures identified at the System level will be communicated with the chancellor.
  - e. Consideration will be given by the president and/or chancellor for further evaluation of the risk exposure as part of a more detailed internal audit analysis.
  - f. Risk assessment outcomes will be utilized in the development of a prioritized annual internal audit work plan based on recognized levels of risk exposure and possible resulting liabilities.
  - g. Audit outcomes will include recommendations for consideration by a university president and/or the chancellor to strengthen internal controls through a change in operational and/or financial practices, documented policies, guidelines, etc.
3. Serve as in-house management consultants to the System. University presidents and the chancellor may request assistance from the OIARA on an as needed basis to review special issues, including strategic plan initiatives, and/or conduct such audits on the campuses and at the System headquarters.
4. Act as liaison, when requested, to the Department of the Auditor General and Office of Inspector General on System matters related to inquiries, referrals, and investigations.

### **Responsibility and Authority**

The Audit and Compliance Committee and the System's internal audit function derive authority from Board of Governors Policy 1991-06-A. The internal audit director achieves organizational independence through reporting administratively to the System's chancellor and functionally to the Audit and Compliance Committee of the Board of Governors. The scope of internal audit responsibility is defined within this Policy and prescribes, "In carrying out OIARA duties and responsibilities, members of the OIARA shall have full, free, and unrestricted access to all



System records, property, and personnel except where such access may be limited or barred by federal or state law, legal privilege, or the provisions of a relevant collective bargaining agreement. No private agreement between the System and a third party shall be used to limit the applicability, unless reviewed and approved by the Office of Chief Counsel."

The Audit and Compliance Committee shall approve appointment of the System's internal audit director, and the department's annual budget and staffing, in consultation with the chancellor. The Audit and Compliance Committee shall review and approve the scope of the System's internal audit annual work plan. The internal audit director will keep the Audit and Compliance Committee, chancellor, and necessary university executive leadership informed of performance relative to its annual work plan and unusual transactions or other matters of significance identified through the course of internal audit work.

### **Independence**

The internal audit function has no direct responsibility or authority over the activities or operations that are subject to review, nor shall they develop or install procedures, prepare records, or engage in activities that would normally be subject to review. However, the internal audit function may be consulted when new systems or procedures are designed to ensure they adequately address internal controls.

### **Objectivity**

The internal audit function is a service role organized primarily for the purpose of conducting internal audits, in accordance with professional Standards. The evidential matter gathered from internal audits form the basis for furnishing opinions and other relevant information to the Audit and Compliance Committee of the Board of Governors, the chancellor, and other impacted members of senior management.

Opinions and other information furnished may attest to the adequacy of internal control, the degree of compliance with established policies and procedures, and/or their effectiveness and efficiency in achieving organizational objectives. The internal auditor may also recommend courses of action for management to consider in improving efficiencies that have been identified through the completion of audit department engagements.

### **Confidentiality and Report Distribution**

It is understood that certain items are confidential in nature and special arrangements may be required when examining and reporting on such items. The System's internal audit function shall handle all information obtained during a review in the same prudent manner as the original custodian of the information. Internal audit respects the value and ownership of information received and shall not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Communication of completed audit engagement activity is presented in written documents comprising a project summary and final report. The project summary communicates the engagement's background, scope, objective, auditor finding(s), recommendation(s), and management's intended corrective action. The final report provides a high-level summary overview of the completed engagement and project finding(s).

The project summary is considered work product and may be privileged or otherwise protected by work product immunity. The project summary is considered confidential and is not intended to be publically shared or distributed to individuals external to the System

organization. A project summary may be released to an external party of the System at the discretion and responsibility of System and/or university leadership. Once released external to the System environment, the communication may no longer be protected by internal audit work product immunity.

The final report serves as the official correspondence of public record defining internal audit project outcomes.

The project summary and final report are distributed to the respective university president, area vice president(s), chancellor, vice chancellor(s), necessary System leadership, and the Audit and Compliance Committee.

University Council of Trustees' chairpersons are provided separate summary notification at the conclusion of completed engagements for their respective institution, with copy to the university president. The Council of Trustees notification is considered a public communication. Council of Trustees' chairpersons may request copy of the engagement project summary and/or final report.

Other individuals interested in obtaining System internal audit reports may request the final report from the chancellor, internal audit director and/or appropriate senior leadership to whom the final report was issued.

### **Code of Ethics**

The System's internal audit function shall subscribe to the mandatory Code of Ethics established by The Institute of Internal Auditors, as well as adhere to governing policies of the System; the applicable policies of the Commonwealth of Pennsylvania, as well as applicable laws such as the *Public Official and Employee Ethics Act*.

### **Scope of the Internal Audit Function**

While carrying out their duties, internal audit staff are responsible for utilizing a systematic, disciplined approach to evaluating and improving the effectiveness of internal controls and should include the following:

- a) Developing and maintaining a comprehensive audit program necessary to evaluate compliance regarding matters of accounting, policies, and procedures necessary to safeguard System resources.
- b) Communicating the results of audits and reviews by preparing timely reports, including recommendations for modifications of management practices, fiscal policies, and accounting procedures as warranted by audit findings.
- c) Maintaining a viable tracking and follow-up process for the purpose of evaluating corrective actions addressing audit report findings and recommendations.
- d) Establishing and maintaining a quality assurance program to evaluate the internal audit operations. This program should include the following: uniformity of work paper preparation, audit sampling, work paper review, report preparation and review, report communication and issuance, and record retention.



**Responsibility for Detection of Errors or Irregularities**

System and university management are responsible for establishing and maintaining controls to discourage perpetuation of fraud. The System's internal audit function is responsible for examining and evaluating the adequacy and effectiveness of those controls. Audit procedures alone are not designed to guarantee the detection of fraud.

If internal audit believes that a material error or an irregularity exists in an area under review or in any other area of the System, the implications of the error or irregularity and its disposition shall be reviewed with the responsible university president and/or the chancellor. As soon as it has been determined that an irregularity exists, internal audit will notify the president and/or the chancellor that an irregularity has been identified and the audit steps needed to determine the extent of the problem. The Audit and Compliance Committee chairperson shall also be notified.

**Services Provided by the Internal Audit Operation**

Internal Audit's primary activity is the implementation of a program of regular audits of the System's business operations. However, the complete range of services provided by internal audit may also include special projects and consultations as requested by the university presidents and/or the chancellor and approved by the Audit and Compliance Committee chairperson.

**Professional Proficiency**

Professional proficiency is the responsibility of the individual auditor. In instances where specific proficiency is required, the internal audit director will assign the audit to the individual who possesses the necessary knowledge, skills, and disciplines to conduct the audit properly.

Internal audit staff have a professional obligation to schedule and attend on-going professional education forums to ensure they maintain academic proficiency and to advance professionally.

The internal audit director is responsible for providing appropriate audit supervision. Supervision is a continuing process, initiated with the planning process and concluding with the completion of the audit assignment. The internal audit director will document evidence of review on all audits. This may be accomplished by signing off on work papers and/or peer auditor review notes as well as audit documents, and editing of final engagement communications.