

5. Internal Audit Charter

For Approval

Presented by Vicki Deaton

Presentation to the Board of Trustees

The University of Memphis Board of Trustees
For Approval

Date: June 6, 2018

Committee: Audit Committee

Presentation Title: Approval of University of Memphis Office of Internal Audit and Consulting Charter

Presented by: Vicki D. Deaton, Chief Audit Executive

Background:

To comply with the requirements of the State of Tennessee statutes and the Audit Committee Charter, which was based on State of Tennessee Comptroller of the Treasury guidelines and approved by the University of Memphis Board of Trustees and the Tennessee Comptroller of the Treasury, the attached University of Memphis Office of Internal Audit and Consulting Charter is presented for approval by the Audit Committee of the Board of Trustees.

All internal audit activities will be conducted in accordance with all state statutes relative to internal audit and audit committees. In addition, the state statutes require that internal audit activities be conducted in accordance with standards established by The Institute of Internal Auditors (IIA).

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the IIA's Definition of Internal Auditing, the Code of Ethics, and the Standards. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The Chief Audit Executive must periodically review the internal audit charter and present it to senior management and the Board of Trustees for approval. Final approval of the internal audit charter resides with the Board of Trustees.

Committee Recommendation:

The Audit Committee recommends approval of the University of Memphis Office of Internal Audit and Consulting Charter.

University of Memphis
Office of Internal Audit & Consulting Charter
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Introduction

The University of Memphis is within the state university system in Tennessee. The University is governed by an independent board, the Board of Trustees (Board), established by state statutes. The University of Memphis Audit Committee is a standing committee of the Board. In accordance with state statutes, the Office of Internal Audit and Consulting (Internal Audit) reports directly to the Audit Committee. All Internal Audit activities are conducted in accordance with all state statutes relative to Internal Audit and Audit Committees. In addition, the state statutes require that Internal Audit activities are governed by adherence to The Institute of Internal Auditor's (IIA) mandatory guidance, which includes the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance.

Purpose

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the University of Memphis' operations. Internal Audit helps the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

University of Memphis management has responsibility for risk management, control and governance. Therefore, University management has the primary responsibility for risk assessment, compliance oversight, and establishing and maintaining a sufficient system of internal controls. Internal Audit serves in an advisory role and assists University management in the effective discharge of their duties and responsibilities by evaluating activities, recommending improvements and providing other information designed to promote effective controls.

Internal Audit Plan

Annually, the Chief Audit Executive (CAE) develops an internal audit plan based on the University's risk assessment, state statute requirements, and input from University management. The plan is submitted to the Audit Committee for review and approval. The CAE reviews and adjusts the plan as necessary in response to changes in Internal Audit's resource levels or changes to the University's risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to and approved by the Audit Committee.

Services

Internal Audit performs assurance services by assessing evidence to provide an independent opinion or conclusion regarding a University entity, operation, function, process, system, or other subject matter. The nature and scope of assurance engagements are determined by the approved internal audit plan and staff of Internal Audit. There are generally three parties involved in assurance services: (1) the person or group directly involved with the entity,

operation, function, process, system, or other subject matter — the process owner, (2) the person or group making the assessment — Internal Audit, and (3) the person or group using the assessment — the user.

Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — Internal Audit, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services, the Internal Auditor should maintain objectivity and not assume management responsibility.

Authority, Responsibility, and Scope

Internal Audit's performance of assurance and consulting services may include the examination and evaluation of the effectiveness of all aspects of University operations. Internal Audit has full and direct access to all University records, which includes electronic and manual records, personnel relative to their performance of duties and responsibilities, and access to all University physical properties. All documents and information obtained by Internal Audit will be treated in a confidential manner to comply with all policies, laws, and regulations regarding protection of University information.

Internal Audit does not have direct responsibility for, or authority over, any of the activities, functions, or tasks it reviews. Internal Audit's review does not relieve others of their responsibilities. The University's Internal Auditors must maintain a high degree of independence. They must not be assigned duties or be involved in activities that are the responsibility of University management. Internal Audit should only engage in activities that they would normally be expected to review or evaluate as part of the normal Internal Audit function.

Internal Audit is not independent for the purpose of issuing an opinion on the University's annual financial statements per the requirements for an external auditor under Tennessee Board of Accountancy regulations. The Tennessee Comptroller of the Treasury's Division of State Audit serves as the external auditors for the University based upon state statutes.

Organizational Structure

The Office Internal Audit and Consulting reports directly to the Audit Committee, but reports administratively to the University President for internal accounting purposes. However, to provide independence and to comply with state statutes and Tennessee Comptroller of the Treasury's requirements, Internal Audit has direct reporting responsibility to the Board of Trustee's Audit Committee. Internal Audit employees have organizational independence and strive to carry out their responsibilities with professional objectivity.

Reporting and Monitoring

All audit work is summarized in written reports distributed to University management to ensure that significant issues noted in audits are properly addressed by University management. In addition, summaries of all internal audit activities are distributed to the Audit Committee and all significant issues are emphasized to the Audit Committee. Internal Audit will answer questions

and provide additional details for any Internal Audit activity when requested by the Audit Committee. Internal Audit is responsible for following up on issues noted in audits or other projects conducted by Internal Audit to ensure issues are addressed by University management. Any issues not properly addressed by University management will be reported to the Audit Committee.

All Internal Audit reports are provided to the Tennessee Comptroller of the Treasury's Division of State Audit in their role as external auditors for the University. All investigation reports are provided to the Tennessee Comptroller of the Treasury's Division of State Audit and the Division of Investigations.

Periodic Review of Office of Internal Audit & Consulting Charter

This charter will be periodically assessed by the Chief Audit Executive to determine whether the purpose, authority, and responsibilities defined in this charter are adequate to enable the Office of Internal Audit and Consulting to accomplish objectives under the IIA Standards and state statutes. The results of the periodic assessment of this charter will be communicated to University management and the Audit Committee.