

# **Appalachian State University**

## **Internal Audit Charter**

### **PURPOSE**

The purpose of the Office of Internal Audits (OIA) is to strengthen the ability of Appalachian State University (University) to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the University's:

- Successful achievement of its mission and objectives.
- Governance, risk management, compliance, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to protect the public interest.

The OIA is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's *Global Internal Audit Standards*<sup>TM</sup>, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Audit, Risk, and Compliance Committee (ARC Committee) of the Board of Trustees (BOT).
- Internal auditors are free from undue influence and committed to making objective assessments.

### **Commitment to Adhering to the *Global Internal Audit Standards***

The OIA will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the *Global Internal Audit Standards (Standards)* and Topical Requirements. The Chief Audit Officer (CAO) will report periodically to the ARC Committee and senior management regarding the internal audit function's conformance with the *Standards*, which will be assessed through a quality assurance and improvement program.

### **MANDATE**

The OIA mandate is found in three governing documents:

- North Carolina General Statute (NC GS) Chapter §116-40.7 (which establishes the independent audit function at state universities)
- NC GS Chapter §143 Article 79, "The NC Internal Audit Act," which requires OIA to comply with professional internal auditing standards issued by The Institute of Internal Auditors
- Audit-related requirements from the University of North Carolina (UNC) Board of Governors, the UNC System Office, and the NC Council of Internal Auditing

The CAO will ensure that the OIA maintains compliance with the mandate.

### **Authority**

The internal audit activity is established by the ARC Committee. The OIA's responsibilities are defined by the ARC Committee as part of its oversight role. Final approval of the internal audit activity charter resides with the BOT.

The ARC Committee authorizes OIA to

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.

- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the OIA's objectives.
- Obtain assistance from the necessary personnel of the University and other specialized services from within or outside the University to complete internal audit services.

### **Independence, Organizational Position, and Reporting Relationships**

All internal audit activity must be independent and objective; that is, free from undue influence or interference in the selection of activities to be examined, determination of the scope or methodology of work, and in communication of the results. The CAO will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. (See "Mandate" section.)

To provide for the independence of OIA, its personnel should report to the CAO, who reports administratively (operationally) to the Director of the Division of Institutional Integrity (DII) and functionally to the ARC Committee. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the ARC Committee, when necessary and without interference, and supports the OIA's ability to maintain objectivity.

The CAO will:

- Have direct and unrestricted access to the Chancellor and the ARC Committee. The CAO will communicate and interact directly with the ARC Committee, including in closed sessions and between regularly scheduled ARC Committee meetings, as necessary.
- Confirm to the ARC Committee and the BOT, at least annually, the organizational independence of the OIA.
- Disclose to the Chancellor and the ARC Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the OIA's effectiveness and ability to fulfill its mandate.

### **Changes to the Mandate and Charter**

Circumstances may justify a follow-up discussion between the CAO, ARC Committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to significant changes in the *Standards*; regulatory requirements; the University's or the OIA's leadership; or the University's strategies, risk profile, or environment.

### **ARC COMMITTEE OVERSIGHT**

The ARC Committee shall be composed, organized, and fulfill its responsibilities in accordance with the ARC Committee Charter approved by the BOT in establishing, maintaining, and ensuring that the internal audit function has sufficient authority to fulfill its duties.

### **CAO ROLES AND RESPONSIBILITIES**

#### ***Ethics and Professionalism***

The CAO will ensure that internal auditors:

- Conform with the *Standards*, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and

be able to recognize conduct that is contrary to those expectations.

- Encourage and promote an ethics-based culture in the organization, including educating the campus community about options to report fraud, waste, and abuse.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

### ***Objectivity***

The CAO will ensure that the OIA remains free of conditions that threaten the ability of the internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAO determines that objectivity may be impaired in fact or appearance, the details of each impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements with objectivity and independence such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

The OIA will have no direct operational responsibility or authority over any of the activities they review. OIA is **not** authorized to make decisions or engage in other activities that are the responsibility of management. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records or accounting transactions external to the internal audit function, perform operational duties (external to the internal audit function) for the University or its affiliates, or direct activities of any organization personnel not employed in OIA. In addition, OIA staff will not assess operations for which they had responsibility within the previous year (although they may serve in an advisory capacity in these matters).

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties such as the CAO, ARC Committee, management, or others. Disclosure is made at least annually to the CAO.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Where the CAO has or is expected to have roles and/or responsibilities that fall outside of internal auditing, necessary disclosures and/or safeguards will be established to limit impairments to independence and objectivity. Any long-term non-audit roles and responsibilities assigned to CAO will require approval by the Chancellor and the ARC Committee.

### ***Managing the Internal Audit Function***

The CAO has the responsibility to manage the internal audit function, including but not limited to:

- At least annually, develop a risk-based internal audit plan using a documented assessment process that considers the input of various management participants and other stakeholders as appropriate. Discuss the plan with the ARC Committee and the Chancellor, and submit the proposed plan to the ARC Committee for approval.
- Implement, review, and adjust the internal audit plan, as necessary, in response to changes in the University's business, risks, operations, programs, systems, and controls.
- Participate (or delegate duties among the audit staff) on various committees or task forces to provide guidance and proactively address potential issues.

- Implement, as appropriate, any assignments or projects requested by management, the Chancellor, the UNC System Office, the NC Council of Internal Auditing, external auditors, and the ARC Committee – so long as such special requests do not cause the OIA to be out of conformance with the *Standards*.
- Maintain appropriate interactions with various external audit-related governance groups such as: the UNC System Office, the NC Council of Internal Auditing, the Office of the State Auditor, and others as required.
- Issue periodic reports summarizing results of audit activities to senior management, the Chancellor, and the ARC Committee.
- Ensure risk-based internal audit engagements are performed, documented, and communicated in accordance with the *Standards*, relevant laws and/or regulations, and OIA policies.
- Keep the Chancellor and ARC Committee informed of trends and emerging issues that could impact the University.
- Follow-up on engagement findings and recommendations and confirm the implementation of management action plans in a timely manner. All significant findings will remain in an open issues file until they are cleared. Communicate the results of internal audit services to the ARC Committee and senior management for each follow-up engagement as appropriate.
- Ensure that the internal audit staff collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the *Standards* and fulfill the internal audit mandate.
- Establish and ensure adherence to methodologies designed to guide the internal audit function through a systematic and disciplined approach.
- Consider emerging trends and successful practices in internal auditing.
- Ensure adherence to the University's relevant policies and procedures and the OIA standard operating procedures manual (the Audit Manual) unless such policies and procedures conflict with the internal audit charter or the *Standards*. Any such conflicts will be resolved or documented and communicated to the ARC Committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAO cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the ARC Committee.

#### ***Communication with the ARC Committee and Senior Management***

The CAO will report periodically to the ARC Committee and senior management regarding:

- The OIA's function and activities, and its ability to ensure the fulfillment of the OIA's mandate.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results of assurance and advisory (also known as consulting) services by OIA.
- Results of external audits.
- The annual audit plan and performance relative to its plan, including a year-end summary.
- Significant interim revisions to the internal audit plan.
- The internal audit budget and other resource requirements, any significant revisions, and any resource limitation impacts that may have a detrimental impact on the ability to meet the OIA's mandate or to carry out the internal audit plan.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the ARC Committee that could interfere with the achievement of the University's strategic objectives.
- Management's response to risk that, in the CAO's opinion, may be unacceptable to the University or beyond

the University's risk appetite.

- Results of ongoing internal quality assessments (ongoing monitoring and periodic self-assessments) and periodic external assessments from the quality assurance and improvement program, which include the internal audit function's conformance with the *Standards*, action plans to address any internal audit function's deficiencies, and opportunities for improvement.

### ***Quality Assurance and Improvement Program***

The CAO will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the *Standards*, as well as performance measurements to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program will also assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. As applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

In accordance with the *Standards*, external assessments will be conducted at least once every five years, by a qualified, independent assessor or assessment team from outside of the University; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

### **SCOPE AND TYPES OF INTERNAL AUDIT SERVICES**

The scope of internal audit services covers the entire breadth of the University, including all the University's activities, assets, information, and personnel. The scope of internal audit assurance activities encompasses, but is not limited to, objective evaluations of evidence in order to provide independent conclusions and, when applicable, improve the effectiveness of governance, risk management, compliance, and control processes for the University. The nature and scope of assurance services are determined by the internal auditor.

Advisory services (also known as consulting) are done to assist management in meeting its objectives and to proactively address issues, provided the internal audit function does not assume management responsibility. The nature and scope of advisory services are subject to agreement with the party requesting the service. These services may include evaluation and assessment of significant University functions, new or changing services, strategies, processes, operations, major systems, and control processes coincident with their development, implementation, and/or expansion to identify risk, make recommendations to mitigate that risk, and consult on management activities. Opportunities for improving the efficiency of governance, risk management, compliance, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management with the goal of adding value and promoting the best interests of the University.

Internal audit engagements may include evaluating whether:


- Risks relating to the achievement of the University's strategic objectives are appropriately identified and managed.
- Operations or programs are adequate to control activities and manage risks; are being carried out effectively, efficiently, ethically, and sustainably; and results of operations or programs are consistent with established objectives and goals of the University.
- Significant financial, managerial, and operational information, and the means used to identify, measure, analyze, classify, report, secure, and control such information, is accurate and reliable.
- Established processes, controls, and systems enable compliance with the policies, procedures, laws, and

regulations that could have a significant impact on the University.

- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.
- University units are compliant to University, UNC System Office, State, and Federal requirements; related processes are administered correctly; and issues are recognized and addressed appropriately and promptly.
- The actions of the University's officers, directors, management, employees, and contractors or other relevant parties comply with the University's policies, procedures, and applicable laws, regulations, and governance standards.

A written report will be prepared and issued by the CAO or audit designee following the conclusion of each internal audit engagement and will be distributed to the Chancellor, the ARC Committee, other management, and outside parties as needed. If warranted, reporting will include significant risk exposures and control issues (including fraud risks, governance issues, and other matters) along with audit's recommendations. The internal audit report should include management's response and corrective action plan to be taken about the specific findings and recommendations.

**Approved this 14<sup>th</sup> day of March 2025.**




Chancellor



Chair of the Audit, Risk, and Compliance Committee



Chair of the Board of Trustees



Interim Chief Audit Officer