

OFFICE OF INTERNAL AUDITS
APPALACHIAN STATE UNIVERSITY

AUDIT MANUAL

June, 2016

AUDIT MANUAL

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(SECTION 100)

THE INTERNAL AUDIT ACTIVITY

(100.1) AUDIT ACTIVITY CHARTER

Reference: Audit Activity Charter - Updated/Approved - 3/25/2016

The Office of Internal Audits (hereafter referred to as OIA) Audit Activity Charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the Chief Audit Officer's (hereafter referred to as CAO) 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. Final approval of the internal activity resides with the Board. The CAO must periodically review the internal audit charter and present it to senior management and the ASU Board of Trustees for approval.

The most recent activity of the OIA was formally documented and updated by the CAO and approved by the Chancellor, the Chair of the ASU Board of Trustees (hereafter referred to as the ASU Board), and the Chair of the ASU Board Audit Committee (hereafter referred to as the Audit Committee) on March 25, 2016.

The approved Audit Activity Charter is as follows:

MISSION AND SCOPE OF WORK:

The Institute of Internal Auditors' International Professional Practices Framework (IPPF) defines the mission of internal audit as follows: "to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight." The mission and scope of this office is consistent with both the IPPF mission statement and the IPPF definition of Internal Auditing. Internal Auditing is an independent and objective assurance and consulting activity that is designed to add value to improve the operations of Appalachian State University. The Office of Internal Audits assists the University in accomplishing its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

ROLE AND ACCOUNTABILITY:

The internal audit activity is established by the Appalachian State University Board of Trustees Audit Committee (hereafter referred to as the "Audit Committee"). The Office of Internal Audits' responsibilities are defined by the Audit Committee as part of its oversight role.

PROFESSIONALISM:

The Office of Internal Audits' activity will be governed in accordance with The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Implementation Guides, Practice Advisories, and Supplemental Guidance will also be adhered to as applicable to guide operations. In addition, the Office of Internal Audits will adhere to Appalachian State University's relevant policies and procedures and the standard operating procedures manual (Audit Manual).

AUTHORITY:

The Office of Internal Audits, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all records, physical properties, and personnel pertinent to carrying out any engagement in accordance with North Carolina General Statute 147-64.7 and Session Law 2010-194, Section 21. All university employees are directed to assist the Office of Internal Audits in fulfilling its roles and responsibilities upon request. The Office of Internal Audits will also have free and unrestricted access to the Audit Committee.

The Office of Internal Audits is not authorized to perform operational duties for the University, initiate or approve accounting or other transactions external to the internal audit office, nor direct the activities of any university employee not employed in the Office of Internal Audits.

ORGANIZATION:

The Chief Audit Officer (hereafter referred to as CAO) will report functionally to the Chair of the Audit Committee and administratively (i.e., day to day operations) to the Chancellor. The CAO will communicate and interact directly with the Audit Committee, including in closed sessions and between regularly scheduled Audit Committee meetings, as appropriate.

The Audit Committee shall be composed and organized in accordance with the Audit Committee Charter approved by the Board of Trustees.

INDEPENDENCE AND OBJECTIVITY:

The Office of Internal Audits should be free from interference in determining the scope of internal auditing, performing work, and communicating results. To provide for the independence of the Office of Internal Audits, its personnel should report to the CAO, who reports administratively to the Chancellor and functionally to the Audit Committee. The CAO shall have full and independent access to the

Chancellor and the Audit Committee. The CAO will confirm to the Audit Committee and the Board of Trustees, at least annually, the organizational independence of the Office of Internal Audits.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgment.

Objectivity and independence are crucial to the duties of the Office of Internal Audits. Either may be compromised if auditors participate directly in preparing records or accounting transactions, designing systems and operations, or directing activities of any organization personnel not employed in the Office of Internal Audits. Therefore, the Office of Internal Audits' staff will serve only in an advisory capacity in these matters.

RESPONSIBILITY:

The Office of Internal Audits is responsible for:

- *Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.*
- *Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.*
- *Monitoring and evaluating the effectiveness of the organization's risk management processes.*
- *Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.*
- *Assessing information security and information technology controls in all appropriate projects.*
- *Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.*
- *Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Charter.*
- *Ensuring the audit activity conforms to the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standards).*
- *Establishing a quality assurance and improvement program by which the CAO assures the operation of internal auditing activities.*
- *Issuing periodic reports summarizing results of audit activities to management, the Chancellor, and the Audit Committee.*
- *Keeping the Chancellor and Audit Committee informed of emerging trends*

and successful practices in internal auditing.

- *Assisting and/or conducting the investigation of suspected fraudulent activities within the organization and notifying the Chancellor and the Audit Committee of the results.*
- *Serving as a liaison between University management and external auditors.*
- *As appropriate, providing consulting services to management that add value and promote the best interests of the organization.*
- *Developing a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Chancellor and Audit Committee for review and approval as well as periodic updates.*
- *Implementing the annual audit plan, as approved, including any special tasks or projects requested by management and the Audit Committee.*

REPORTING AND MONITORING:

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 as appropriate. Internal audit results will also be communicated to the Audit Committee and the Board of Trustees. The Office of Internal Audits will be responsible for appropriate follow-up on engagement findings and recommendations.

The internal audit report may include management's response and corrective action to be taken in regard to the specific findings and recommendations. Management's response, whether included within the audit report or provided thereafter (i.e., within fifteen days) by management of the audited area, should include a timetable for anticipated completion of action to be taken or an explanation for any corrective action recommendations that will not be implemented (management will accept the risk).

The Office of Internal Audits will be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until they are cleared.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The CAO will communicate to the Chancellor and the Audit Committee on the

Office of Internal Audits' quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

PERIODIC ASSESSMENT:

The CAO will periodically report to the Chancellor and the Audit Committee on the Office of Internal Audits' purpose, authority, and responsibility, as well as performance relative to its audit plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters as determined in the discretion of the CAO or requested by senior management or the Audit Committee.

(100.2) STATE AGENCY GENERAL STATUTE REQUIREMENT

Reference: NC GS 143.79 §143-745 through 749

As a State Agency, the University is required by NC General Statute to establish a program of internal auditing – meeting the requirements of the statute and in compliance with the current IIA *International Standards for the Professional Practice of Internal Auditing* (the *Standards*). The University has established a program of internal auditing that:

1. Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
2. Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
3. Reviews the effectiveness and efficiency of the University and program operations and service delivery.
4. Periodically audits the University's major systems and controls, including:
 - a. Accounting systems and controls.
 - b. Administrative systems and controls.
 - c. Information technology systems and controls.

(100.3) CORE PRINCIPLES

Reference: IIA IPPF

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission.

The Core Principles for the Professional Practice of Internal Auditing are as follows:

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

(100.4) DEFINITION OF INTERNAL AUDITING

Reference: IIA IPPF

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

(100.5) CODE OF ETHICS

Reference: IIA IPPF

THE IIA CODE OF ETHICS

Principles

Internal auditors are expected to apply and uphold the following principles from The IIA.

1. **Integrity:** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
2. **Objectivity:** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. **Confidentiality:** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency:** Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Rules of Conduct

1. **Integrity:** Internal auditors
 - 1.1. Shall perform their work with honesty, diligence, and responsibility.
 - 1.2. Shall observe the law and make disclosures expected by the law and the profession.
 - 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
 - 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity:** Internal auditors
 - 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
 - 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
 - 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality:** Internal auditors
 - 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
 - 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency:** Internal auditors
 - 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
 - 4.2. Shall perform internal auditing services in accordance with the *Standards for the Professional Practice of Internal Auditing*.
 - 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

The CAO will annually ask for written verification by the "Auditor's Annual Code of Ethics Statement" from the OIA staff as to their understanding that they are expected to apply and uphold the Code of Ethics as outlined above.

(100.6) STATEMENT OF CONFIDENTIALITY

Upon commencement of employment with the University, all employees will complete an online "Statement of Confidentiality," indicating that he/she agrees to keep confidential all student education records, employee personnel records, and other personally identifiable information which is deemed to be confidential in accordance with applicable state and federal law and standards, as well as ASU policies and regulations, and will require that its officers, employees, subcontractors, and agents comply with the same. ASU Password Manager (<https://password.appstate.edu/pswdchgform/UniversityPolicies>) requires the ASU employee to review and agree to the "Statement of Confidentiality" when establishing a campus network secure password for the first time, and annually thereafter. Students, faculty, and staff at ASU must also read and agree to the "Computer User Policy" to receive access to campus electronic services.

(100.7) ANNUAL INDEPENDENCE STATEMENTS

The CAO will annually ask for written verification by the "Auditor's Annual Independence Statement" from the OIA staff that they have reviewed their personal situations for any possible personal impairment to their independence with respect to ASU. OIA staff should understand their responsibility to make timely written notification to the CAO in the event that any circumstance arises during the course of the year that might impair or appear to impair their independence with respect to any audit.

(100.8) AUDIT TYPES AND SERVICES

In order to meet the responsibilities and objectives as set forth in the OIA Audit Activity Charter, it is necessary for the OIA to perform reviews and audits of varying types and scopes depending on the circumstances and requests from management.

Each fiscal year an annual audit plan is developed and submitted to the Audit Committee for review and approval. The audit plan is based on a risk assessment methodology, as well as requests from management (see Section 400). Audit services can be requested by members of the University community through memos or email. The following types of audit services are provided by the OIA.

AUDIT LIAISON OFFICER

The CAO serves as Audit Liaison Officer. In accordance with UNC General Administration (UNCGA) requirements [*Memorandum 8/14/2013*], the CAO will notify the VP for Audit and Compliance Services whenever any external audits or other regulatory reviews are to be performed. This applies to audits from the Office of State Auditor, external audits of Foundations and other associated entities of the University, program reviews from the State Educational Assistance Authority, federal compliance audits, and reviews by other regulatory entities. The CAO will be informed by the Chancellor, deans, department heads, and officers of all Foundation and associated entities of all external audits and reviews being conducted. Any reports and related work papers resulting from these reviews will be accessible to the CAO for follow-up.

Copies of all University audit findings and recommendations issued to management by external auditors and investigators along with University responses shall be forwarded to the OIA in a timely manner. During the period of resolution, the OIA monitors the progress of the corrective action being implemented. Upon implementation of the recommendation or other alternative action by management, the CAO performs verification procedures to ensure that the stated plan of action has in fact been implemented and issues a status report.

FINANCIAL AUDITS/REVIEWS

A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity of financial information with generally accepted accounting principles. Financial audits can be full or limited in scope, depending on the objectives.

Financial audits that are limited in scope are normally performed by the OIA. These audits can include a transaction cycle review of administrative systems such as purchasing, payroll, and payables or a special examination of the financial activities of a decentralized University department.

The North Carolina Office of the State Auditor normally performs the University's financial audit. The State Auditors perform a full scope financial audit which consists of a review of the financial statements of an entity of sufficient extent to express an opinion on those statements. Such an audit is conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Also, other external accounting firms perform Foundation audits and other associated entity audits.

PERFORMANCE/OPERATIONAL AUDITS AND/OR REVIEWS

Performance/operational audits and/or reviews have a direct relationship to the University departmental operations and activities. These audits/reviews assess risks and evaluate internal controls of operational systems for departments, units, and functions of the University. Operational audit objectives include determining whether operations are functioning efficiently, effectively, and in accordance with management's intent. The operational audit evaluates the use of resources available to the department, unit or function to determine if management's objectives and goals are being met in the most effective and efficient manner. Some areas of operational audits include: organizational structure, asset management and security, staffing, and productivity.

COMPLIANCE AUDITS

A compliance audit measures the compliance of the client with Federal and State laws and regulations, and/or University policies, such as Travel guidelines or Procurement Card (P-Card) purchasing policies.

INFORMATION SYSTEM CONTROLS AUDITS

Information System Controls audits or reviews include reviews of information systems, including general controls, application controls, and disaster recovery. They are

conducted to evaluate the quality of the controls and safeguards over the information technology resources of the University. These audits normally consist of reviewing the effective use of information technology resources, adherence to management's policies, and encouraging the design and implementation of adequate controls over computer applications and the computing environments in which they are used.

AUDITS/REVIEWS OF INTERNAL CONTROLS

Audits and reviews of internal control systems and processes include assessments and testing of 1) UNC FIT required reporting (e.g., Departmental Budget Reconciliations), 2) Campus-wide Fixed Assets, 3) Travel Disbursements, 4) Procurement Card Expenditure Review, and 5) Foundation Expenditure review.

AUDIT FINDINGS FOLLOW-UP

This includes reviews and procedures related to addressing and correcting audit findings as a result of external audits as well as those from internal audit activity.

SPECIAL INVESTIGATIONS

These audits include investigations of internal and external hotline reports as well as any similar types of investigations, regardless of the source. They are often requested by management and focus on alleged, irregular conduct. Reasons for investigative audits include: internal theft, misuse of State property, and/or conflicts of interest.

CONSULTATION/ADVISORY SERVICES

The OIA also provides routine consultation and advisory services to University management. This may include, but is not limited to, interpreting policies and procedures, participation on standing committees, limited-life projects, ad-hoc meetings, and routine information exchange. Advisory and consulting engagements include review of existing business processes and strategies, as well as implementations. It also includes evaluation and advice on policies, procedures, process enhancements, and any management requests for reviews of areas considered mutually critical.

YEAR-END WORK – STATE AUDITORS

The OIA provides assistance to the NC State Auditors and other external auditors conducting audits of the University, Foundation, and other associated entities of the University. The OIA conducts and/or compiles the following:

- Petty Cash Counts and Bank Certifications
- Listing of Audit Engagements
- Receipt Book Inventory Testing and Verifications
- Fixed Assets Inventory Verifications
- Foundation Expenditure Reviews

OTHER

Other special projects may be performed by the OIA as delegated by the UNCGA, the ASU Board, the University Chancellor, or other University management.

(SECTION 200)

THE INTERNAL AUDITOR

(200.1) PRESERVING OBJECTIVITY

Reference: PA-1120-1, PA-1130-1, PA-1130.A1.1, PA-1130.A2.1

IIA IPPF Standard 1100 states, "The internal audit activity must be independent, and internal auditors must be objective in performing their work." Standard 1120 states that the individual auditor achieves objectivity when they "have an impartial, unbiased attitude and avoid any conflict of interest." The following steps should be taken to help preserve objectivity:

1. Internal auditors should not be placed in situations where they feel unable to make objective professional judgments.
2. The CAO should query the internal audit staff on a yearly basis concerning potential conflicts of interest and bias and make staff assignments accordingly to avoid potential problems.
3. Staff assignments should be rotated periodically.
4. Audit results should be reviewed to provide reasonable assurance that the work was performed objectively before communications resulting from the engagement are released.
5. Internal auditors should not accept fees or gifts from employees, clients, vendors, or business associates. To do so is considered unethical and may create the appearance of impaired objectivity. Internal auditors should report the receipt of all material fees or gifts immediately to the CAO.
6. The internal audit staff should notify the CAO if at any time they determine or perceive their objectivity has been impaired. If the CAO determines a staff member's objectivity has been impaired, the CAO will notify the appropriate parties and will reassign the auditor.
7. Internal auditors are required to wait at least one year before providing assurance in areas for which they were previously responsible. This includes persons who are transferred to or temporarily engaged by internal audit.
8. Internal auditors should not assume operating responsibilities of the University.
9. Internal auditors should inform the CAO about any relatives or close friends that might impair their independence when starting an audit of a particular area.

(200.2) PROFICIENCY AND DUE PROFESSIONAL CARE

Reference: PA-1210-1, PA-1220-1

IIA IPPF Standard 1200 requires that engagements must be performed with proficiency and due professional care. Proficiency refers to the internal auditor's possession of the knowledge, skills, and other competencies needed to fulfill their individual responsibilities. Due professional care is described in terms of applying the care and skill expected of a reasonably prudent and competent internal auditor and does not imply infallibility.

1. Professional proficiency is the responsibility of the CAO and each internal auditor. The CAO should ensure that persons assigned to each engagement collectively possess the necessary knowledge, skills, and other competencies to conduct the engagement properly.
2. Internal auditors should possess certain knowledge, skills, and other competencies to include:
 - a. Proficiency in applying internal auditing standards, procedures, and techniques without extensive recourse to technical research and assistance.
 - b. Proficiency in accounting principles and techniques when working with financial records and reports.
 - c. Knowledge to identify the indicators of fraud.
 - d. Knowledge of key IT risks and controls and available technology-based audit techniques.
 - e. An understanding of management principles to recognize and evaluate the materiality and significance of deviations from good business practices.
 - f. An appreciation of the fundamentals of subjects such as accounting, economics, commercial law, taxation, finance, quantitative methods, and information technology.
 - g. Skill in dealing with people and in communicating effectively. Internal auditors should understand human relations and maintain satisfactory relationships with engagement clients.
 - h. Skill in oral and written communications in order to clearly and effectively convey such matters as engagement objectives, evaluations, conclusions, and recommendations.
3. Due professional care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Professional care should, therefore, be appropriate to the complexities of the engagement being performed. In exercising due professional care, internal auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflicts of interest. They should also be alert to those conditions and activities where

irregularities are most likely to occur. In addition, they should identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices.

4. Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations and verifications to a reasonable extent, but does not require detailed reviews of all transactions. Accordingly, internal auditors cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or noncompliance needs to be considered whenever an internal auditor undertakes an internal audit assignment.

(200.3) CONTINUING PROFESSIONAL DEVELOPMENT

Reference: PA-1230-1

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1. Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies and attendance at conferences, seminars, college courses, and in-house training programs.
2. Internal auditors not presently holding certifications are encouraged to pursue an educational program that supports their effort to obtain professional certifications; and to demonstrate their proficiency by obtaining appropriate professional certification, such as CIA, CISA, CPA, or CFE.
3. Internal auditors with professional certifications should obtain sufficient continuing professional education to satisfy requirements related to professional certifications held.
4. The internal audit staff is required to record any training they receive such as seminars, conferences, and in-house training programs for each fiscal year.

(200.4) PERSONAL CONDUCT, OBJECTIVITY, AND CONFIDENTIALITY

Reference: The IIA's Code of Ethics

In the promotion of a sound ethical culture in the internal audit activity, all internal auditors are expected to abide by The IIA's Code of Ethics, specifically including the four principles of Integrity, Objectivity, Confidentiality, and Competency as set out in the Code. [See Section 100.4.]

In addition, the following guidelines are established for the internal auditor regarding personal conduct and objectivity, and the confidentiality of internal audit or business information acquired through internal audit assignments.

- As a member of the internal auditing staff, you are representing the highest level of management. Conduct yourself in a manner that reflects favorably upon you and those you represent. You are expected to exercise professional skill, integrity, maturity of behavior, and tact in your relations with others.

In general, you are encouraged to be friendly, yet professional, with all university employees without affecting your objectivity. You should guard against any conduct or mannerisms that present an impression that you consider yourself superior to any employee. Acknowledge that the client is an expert concerning their job and area of operations and never imply or communicate that you know the client's work better than they do. As far as possible, take the position of an independent/objective analyst and advisor. Avoid the image of policing.

- In the course of your assignments, you will be in contact with personnel at all levels of authority and position. At all times, independence in mental attitude is to be maintained. Reports resulting from your efforts should always contain full and unbiased disclosure of all but minor audit findings. Although you report to the internal auditing activity, you have responsibilities to both management and the personnel being audited.
- Much of your work is confidential; therefore, be discreet on and off the job in discussing current or past audits or your assessments of internal audit clients. Judgment should be exercised in the security of internal audit workpapers, programs, company records, and information at all times.
- Never indiscreetly discuss confidential information learned in general job duties such as system changes, reduced working hours, or possible personnel layoffs.

(SECTION 300)

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

(300.1) QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

Reference: PA-1300-1

The CAO must develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity.

A QAIP covers the entire spectrum of assurance and consulting work performed by the internal audit activity as prescribed in the internal audit charter. A QAIP includes internal and external assessments. Internal assessments include ongoing monitoring and periodic self-assessments. External assessments may take the form of a full external assessment *or* a self-assessment with independent validation.

The primary objective of a QAIP is to promote continuous improvement. A QAIP presumes that quality is built into - and not onto - the structure of the internal audit activity.

The QAIP should be considered during annual planning activities. Individual sections of the program should be updated continuously.

(300.2) INTERNAL ASSESSMENTS

Reference: PA-1311-1

The CAO is required to develop and implement a QAIP, which includes internal and external assessments. Internal assessments are comprised of two interrelated parts: ongoing monitoring and periodic self-assessments. These provide an effective structure for the continuous assessment of conformance with the Core Principles, the Definition of Internal Auditing, the Code of Ethics, and the *Standards*; and identification of improvement opportunities. One way to address this is through ongoing monitoring and periodic self-assessments at the internal audit activity-level and the individual audit engagement-level.

Ongoing Monitoring:

Ongoing monitoring determines whether processes are delivering quality on an engagement-by-engagement basis. Ongoing monitoring is primarily achieved through:

- Standard working practices.

- Engagement planning.
- Supervision.
- Assessing the audit engagement action plan prior to fieldwork.
- Using checklists or automation tools to provide assurance on compliance with established practices and procedures.
- Working paper procedures and signoff by engagement supervisors.
- Review of reports and supporting documentation for comments.
- Feedback from internal audit clients and other stakeholders.
- Using performance measures appropriate and relevant to the internal audit activity.

Adequate supervision is the most fundamental element of any quality assurance process. Supervision begins with planning and continues throughout the performance and communication phases of the engagement. Improvement opportunities can be addressed continuously.

Periodic Self-assessment:

Periodic self-assessments focus on evaluating whether the internal audit activity:

- Conforms with:
 - IPPF mandatory guidance: the Core Principles, the Definition of Internal Auditing, the Code of Ethics, and the *Standards* (Attribute and Performance).
 - The internal audit activity's charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements.
- Operates efficiently and effectively as measured through an assessment of the internal audit activity's:
 - Processes and infrastructure.
 - Mix of knowledge, experience, and expertise.

Periodic self-assessments may be conducted through:

- An assessment of the internal audit activity's performance against QAIP established criteria.
- Regular review and approval of the internal audit charter and other relevant documents.
- Review of the annual audit plan in relation to the risks of the organization.

- In-depth workpaper reviews conducted on a sample basis.
- Review of internal audit performance metrics.

Following a periodic self-assessment, where appropriate, an action plan can be developed to address all identified improvement opportunities.

(300.3) EXTERNAL ASSESSMENTS

Reference: PA-1312-1

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The CAO must discuss with the Board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

External assessments may be accomplished using either of two different approaches:

- A full external assessment conducted by a qualified, independent external assessor or assessment team. The team should be comprised of competent professionals under the leadership of an experienced and professional project team leader.
- An internal audit activity self-assessment with independent external validation.

External assessments assess conformance with *International Professional Practices Framework (IPPF)* mandatory guidance: the Core Principles, the Definition of Internal Auditing, and the *Standards*; and an evaluation of whether the internal auditors apply the Code of Ethics.

In determining the nature of any external assessment, the CAO and Board may also consider:

- Whether the assessment should result in an expressed opinion or conclusion on conformance.
- The scope of work performed by the internal audit activity to be covered by the assessments.
- Whether the assessment will cover conformance with the internal audit activity's charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements.
- Whether the assessment will consider the efficiency and effectiveness of the internal audit activity as measured through an assessment of the internal audit activity's:
 - Processes and infrastructure, including the QAIP.
 - Mix of knowledge, experience, and expertise.

- Whether the assessment will consider the extent to which the internal audit activity meets expectations of the Board, senior management, and operations management, and adds value to the organization.

The scope may be agreed upon by the CAO, the Chancellor, and the Board. The CAO should ensure that the scope clearly identifies external assessment deliverables.

Assessors/Assessment Team:

A qualified, independent external assessor or assessment team should be selected in consultation with the Chancellor and the Board. Assessors/assessment teams must be competent in two main areas:

- The professional practice of internal auditing, including in-depth knowledge of the IPPF.
- The external quality assessment process.

Preferred qualifications and competencies include:

- A competent certified internal audit professional such as a certified internal auditor (CIA).
- Current in-depth knowledge of the *IPPF*.
- Knowledge of leading internal auditing practices.
- At least three years of recent experience in the practice of internal auditing at a senior level that demonstrates a working knowledge and application of the *IPPF*.

In addition, preferred competencies of assessment team leaders and independent validators may include:

- An additional level of competence and experience gained from previous external quality assessment work, and/or completion of The IIA's Quality Assessment training course or similar training.
- CAO or comparable senior internal audit management experience.
- Relevant technical expertise and industry experience.

Individuals with expertise in other areas may provide assistance as appropriate. Examples include specialists in enterprise risk management, IT auditing, statistical sampling, monitoring systems, and control self-assessment.

External assessors/assessment teams and their organizations should be free from conflicts of interest that could impair objectivity. The CAO, the Chancellor, and the Board should consider:

- Actual, potential, or perceived conflicts of interest related to past, present, or future business relationships for services, such as:
 - The external audit of financial statements.
 - Consulting services in governance, risk management, financial reporting, internal control, or other related areas.

- Assistance to the internal audit activity.
- The significance and amount of work performed should be considered.
- Actual, potential, or perceived conflicts of interest with assessors who are former employees of the internal audit activity's organization. Consideration should be given to the length of time the assessor has been independent. *Independent* means not having a conflict of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.
- Actual, potential, or perceived conflicts of interest with the assessor due to past, present, or future relationships with the organization or its internal audit activity, including the assessors' participation in internal quality assessments.
- Reciprocal assessments among three or more peer organizations may be considered independent. Peer organizations are organizations within the same industry, regional association, or other affinity group. However, care must be exercised to ensure that independence is not impaired and all team members will be able to fully exercise their responsibilities.
 - Reciprocal peer assessors/assessment teams should possess the skills, experience, and knowledge previously described.
 - Reciprocal peer assessments between two organizations are not independent.

Assessor/assessment team independence and conflicts of interest should be discussed with the Board. The CAO should assess the level of independence of the assessment team and monitor whether an agreed methodology, such as The IIA's *Quality Assessment Manual*, is followed throughout the process.

The North Carolina Internal Audit Act of 2007 establishes basic standards for external evaluations. Implementing guidance from the Council on Internal Auditing is published in their IA Manual (www.osbm.state.nc.us).

(300.4) REPORTING ON QAIP

Reference: PA-1320-1

The CAO must communicate the results of the QAIP to senior management and the Board.

Internal Assessments

Results of internal assessments will be reported to the Audit Committee and to the Chancellor at least annually.

External Assessments

The final report of a full external assessment or a self-assessment with independent external validation should be signed by the qualified, independent external assessor.

The nature of the final communication should be agreed to by the CAO and Board and may include:

- A conclusion on the engagement based on the objectives established at the beginning of the external assessment and agreed to with the Board.
- A conclusion on the internal audit activity's conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards* based on an assessment against a rating scale, such as outlined in The IIA's *Quality Assessment Manual* or a similar scale.
- A conclusion on the internal audit activity's conformance/compliance with its charter, plans, policies, procedures, practices, and applicable legislative and regulatory requirements.
- An assessment and evaluation of the use of best practices, both those observed during the assessment and others potentially applicable to the activity.
- An assessment of the efficiency and effectiveness of the internal audit activity in carrying out its charter and meeting the expectations of stakeholders.
- Recommendations for improvement, where appropriate.
- Response from the CAO that includes, where appropriate, an action plan and implementation dates.

The expression of an opinion or conclusion on the results of the external assessment should be based on application of sound business judgment, integrity, and due professional care. The CAO and Board may agree to the rating scale used for the external assessment. An example of a rating scale is:

- "Generally Conforms" — the top rating and means that an internal audit activity has a charter, policies, and processes, execution and results of which are judged to be in conformance with the *Standards*.
- "Partially Conforms" — means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities.
- "Does Not Conform" — means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Follow-up – The CAO will monitor appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

Disclosure of Noncompliance - Should the situation arise, the CAO will communicate to the Audit Committee and to the Chancellor the facts and impacts of noncompliance with external assessment standards.

(300.5) OIA PERFORMANCE METRICS

Reference: UNC GA Reporting of Key Performance Indicators

“What cannot be measured, cannot be managed.” (Rupsys et al 2007)¹

Qualtrics is the tool being used to collect the data to calculate the key performance indicators (KPIs) and other statistics that will be presented to the UNC Board of Governors Audit Committee.

As stated in *Performance Measures for Internal Audit Functions: A Research Project*, “Continuing to develop guidelines for the use of performance measures in internal auditing is crucial for the profession. These metrics are both a helpful managerial tool and an effective way for internal auditors to market their value to executive management and their boards. Most importantly, the use of performance measures is consistent with the objectivity and accountability that are the core values of the internal auditing profession.”²

Current KPIs and statistics that will be reported annually to UNC-GA include:

- Direct vs. Indirect Hours (Productivity)
- Completion of Audit Plan
- Status of Findings
- Staffing Qualifications
- Financial Information

¹ Rupsys, Rolandas and Boguslauskas, Vytautas. “Measuring Performance of Internal Auditing: Empirical Evidence.” *Engineering Economics*, 2007 No. 5, p. 9-14.

² The IIA Research Foundation. “Performance Measures for Internal Audit Functions: A Research Project.” 2009 No. 5, p. 1.

(SECTION 400)

ANNUAL AUDIT PLAN

(400.1) DEVELOPMENT PROCESS

The OIA shall develop and maintain an annual audit plan containing the projected workload for the Internal Audits staff. The audit plan will be developed based on a risk assessment conducted each year by the CAO with input from the campus community and others. The CAO will solicit input from the Chancellor, Vice Chancellors, deans, directors, external auditors (e.g., State Auditors) and others by conducting interviews and formal memoranda documenting requested risk questionnaires.

Risk assessments may be based on:

- **History of problems:** A history of weak controls, problems in recent audits, and other issues may increase risk.
- **Regulatory compliance and public scrutiny:** High public interest and a large volume of regulatory requirements may increase risk.
- **Reliance on information technology:** Heavy reliance on information technology may increase risk for newly implemented processes, especially if those processes are locally developed and used by inexperienced staff.
- **Dollar volume and liquidity of assets:** A large dollar volume flowing through a department or unit and a high liquidity of assets generally increases risk.
- **Organization stability and changes:** Significant organizational changes and lack of continuity in personnel may mean the control system is less effective than in prior periods.

Other sources to consider are ideas from the audit staff, knowledge of the mission functions, and external audit information.

The UNCGA requires that all North Carolina Universities submit their audit plans in a universally prescribed format which divides the audits into categories of: financial audits, information system controls, audits/reviews of internal controls, performance/operational audits, compliance audits, audit follow-ups, special investigations, and special assignments.

(400.2) APPROVAL PROCESS AND ANNUAL CERTIFICATIONS

*Certification: Audit Committee Certification Letter
CAO Certification Letter*

The annual audit plan is reviewed and approved by the Audit Committee each year. The approved audit plan is then submitted to UNCGA along with annual certifications signed by the CAO of Internal Audits and the chairperson of the Audit Committee.

Also during this meeting, the prior year's audit plan and the results accomplished during the prior year are discussed. This discussion encompasses all audit work completed for the prior year. All significant findings and their resolutions are also discussed. This prior year audit plan and results (including significant findings and resolutions) is submitted to the Office of State Budget and Management's Council of Internal Auditing each year.

Certification Letter for Board of Trustees

Date

[Name of the Board of Governors Chair]

UNC Board of Governors
P.O. Box 2688
Chapel Hill, North Carolina 27515-2688

Dear _____:

In accordance with the Best Financial Practices Guidelines adopted by the Board of Governors in November 2005, I confirm that the Board of Trustees (BOT) Audit Committee of Appalachian State University is in compliance with the following (any exceptions must be identified and explained in an accompanying statement):

1. Met at least four times this year.
2. Reviewed the results of the annual financial audit with representatives of the State Auditor's Office and discussed corrective actions, if needed.
3. Discussed the results of any other audit performed and report/management letter (i.e., information system audits, investigative audits, etc.) issued by the North Carolina Office of the State Auditor with the State Auditor, the Chief Audit Officer (CAO) of Internal Audits or appropriate campus official.
4. For any audit finding contained within a report or management letter issued by the State Auditor, reviewed the institution's corrective action plan and the report of the internal auditor on whether or not the institution has made satisfactory progress in resolving the deficiencies noted, in accordance with North Carolina General Statute 116-30.1 as amended.
5. Reviewed all audits and management letter of University Associated Entities as defined in Section 600.2.5.2 [R] of the UNC Policy Manual.
6. Received and reviewed quarterly or four reports from the institution's CAO of Internal Audit that, at a minimum, reported material (significant) reportable conditions, the institution's corrective action plan for these conditions and a report once these conditions had been corrected.
7. Received, reviewed, and approved, at the beginning of the audit cycle, the annual audit plan for the Office of Internal Audits department.
8. Received and reviewed, at the end of the audit cycle, a comparison of the annual audit plan with internal audits performed by the internal audit department.

I further attest to the following:

1. The institution's CAO of Internal Audits reports directly (administratively) to the Chancellor with a clear and recognized functional reporting relationship to the chair of the BOT Audit Committee.
2. The Audit Committee charter defines appropriate roles and responsibilities. One of these responsibilities is the assurance that the institution is performing self-assessments of operating risks and evaluations of internal controls on a regular basis.

3. Internal audit functions are carried out in a way that meets professional standards.
4. The institution's CAO forwarded copies of both the approved audit plan and the summary of internal audit results, including any reportable conditions and how they were addressed, to UNC General Administration in the prescribed format.

[Name of the BOT Chair]

Chair of BOT Audit Committee

Certification Letter for Audit CAO

Date

[Name of Board of Governors Chair]
UNC Board of Governors
P.O. Box 2688
Chapel Hill, North Carolina 27515-2688

Dear _____:

As Chief Audit Officer (CAO) of Internal Audits at Appalachian State University, I confirm that we are in compliance with the following (any exceptions must be identified and explained in an accompanying statement):

1. Met and updated the BOT Audit Committee at least four times this year.
2. Attended the financial audit exit conference conducted by the State Auditor's Office.
3. Discussed the results of any other audit performed and report/management letter (i.e., information system audits, investigative audits, etc.) issued by the North Carolina Office of the State Auditor with either the State Auditor's Office or appropriate campus official.
4. I report directly (administratively) to the Chancellor with a clear and recognized functional reporting relationship to the chair of the BOT Audit Committee.
5. The audit plan was constructed with the consideration of risk and potential internal control deficiencies and included any audits outlined by the UNC General Administration (UNCGA).
6. Ensured that all internal audits were planned, documented and executed in accordance with professional standards.
7. Forwarded copies of both the approved audit plan and the summary of internal audit results to UNCGA in the prescribed format and updated the BOT Audit Committee for completion.

[Name of CAO]
CAO of Internal Audits

(SECTION 500)

AUDIT PROCESS

(500.1) PLANNING

Reference: PA- 2200-1

Templates: Audit Engagement Memo, ASU IIA Standards Checklist Template

The internal auditor plans and conducts the engagement, with supervisory review and approval.

During the planning portion of the audit, the auditor notifies the client of the audit by sending an "Audit Engagement Memo" which identifies the audit purpose and time period covered by the audit. It also notifies the client of certain documentation that will be requested and lets them know that an entrance conference will be scheduled to communicate the details of the planned audit.

During the planning portion of the audit, the auditor also discusses the scope and objectives of the audit in a formal meeting with organization management, gathers information on important processes, evaluates existing controls, prepares the audit program, and plans the remaining audit steps.

As part of OIA's QAIP, the CAO has established an internal audit activity whose scope of work includes the activities in the *Standards* and in the Definition of Internal Auditing. To ensure that this occurs, the CAO has implemented the "ASU IIA Standards Checklist Template" to determine *IIA Standards* compliance with every engagement in the areas of Independence and Objectivity, Planning, Fieldwork, Reporting, and Monitoring Progress.

(500.2) ENTRANCE CONFERENCE

Template: Preliminary Survey Questionnaire

An entrance conference should be scheduled early in the planning stages of an audit. The auditor-in-charge is responsible for scheduling this meeting with the audit client's management and key supervisory personnel. The CAO should also be in attendance. This meeting should set the tone for the audit as well as explain the scope and objectives of the audit. The timing of the engagement work should be discussed and it should also be explained how audit findings and other issues will be handled. The client should have the opportunity to provide a description of their department, available resources (such as personnel, facilities, equipment, systems) and other relevant information as well as any issues or concerns they may have. As a result of the entrance conference, the auditor will complete the "Preliminary Survey Questionnaire."

This form will be used to document the entrance conference as well as document identified problems or concerns, identified risks and address the probability of significant errors, fraud, and noncompliance. The responses will also be used to determine the critical internal controls that will be evaluated during the audit.

(500.3) RISK ASSESSMENT IN ENGAGEMENT PLANNING

Reference: PA-2210.A1-1

Template: Risk Assessment in Engagement Planning

The auditor must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment. The auditor also considers:

- Management's assessment of risks relevant to the activity under review.
- The reliability of management's assessment of risk.
- Management's process for monitoring, reporting, and resolving risk and control issues.

The auditor obtains or updates background information about the activities to be reviewed to determine the impact on the engagement objectives and scope. During the entrance conference, the auditor conducts a survey to become familiar with the activities, risks, and controls to identify areas for engagement emphasis, and to invite comments and suggestions from engagement clients. Using the "Risk Assessment in Engagement Planning" template, the auditor summarizes the results from the reviews of management's assessment of risk, the background information, and any survey work. The summary includes:

- Significant engagement issues and reasons for pursuing them in more depth.
- Engagement objectives and procedures.
- Methodologies to be used, such as technology-based audit and sampling techniques.
- Potential critical control points, control deficiencies, and/or excess controls.

(500.4) ESTABLISHING OBJECTIVES

Reference: PA-2210-1

Objectives must be established for each engagement. The auditor establishes engagement objectives to address the risks associated with the activity under review. For planned engagements, the objectives proceed and align to those initially identified during the risk assessment process from which the internal audit plan is derived. For unplanned engagements, the objectives are established prior to the start of the engagement and are designed to address the specific issue that prompted the engagement. The risk assessment during the engagement's planning phase is used to further define the initial objectives and identify other significant areas of concern. (See section 500.3). After identifying the risks, the auditor determines the procedures to be performed and the scope (nature, timing, and extent) of those procedures. Engagement

procedures performed in appropriate scope are the means to derive conclusions related to the engagement objectives.

(500.5) ENGAGEMENT SUPERVISION

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. The extent of supervision required will depend on the proficiency and experience of the auditors and the complexity of the engagement. The CAO has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

Supervision is a process that begins with planning and continues throughout the engagement. The process includes:

- Ensuring designated auditors collectively possess the required knowledge, skills, and other competencies to perform the engagement.
- Providing appropriate instructions during the planning of the engagement and approving the engagement program.
- Ensuring the approved engagement program is completed unless changes are justified and authorized.
- Determining engagement working papers adequately support engagement observations, conclusions, and recommendations.
- Ensuring engagement communications are accurate, objective, clear, concise, constructive, and timely.
- Ensuring engagement objectives are met.
- Providing opportunities for developing internal auditors' knowledge, skills, and other competencies.

The CAO is responsible for all internal audit engagements, whether performed by or for the internal audit activity, and all significant professional judgments made throughout the engagement.

All engagement working papers are reviewed to ensure they support engagement communications and necessary audit procedures are performed. Evidence of supervisory review consists of the reviewer initialing and dating each working paper after it is reviewed. Other techniques that provide evidence of supervisory review include completing an engagement working paper review checklist or preparing a memorandum specifying the nature, extent, and results of the review.

Engagement supervision also allows for training and development of staff and performance evaluation.

(500.6) AUDIT PROGRAM

Reference: PA-2240-1

Template: Engagement Work Program

The audit program establishes the procedures necessary to complete an efficient and effective audit. It includes a detailed plan of the work to be performed as well as the steps required to achieve the audit objectives. The work program also includes methodologies to be used, such as technology-based audit and sampling techniques. There should be sufficient detail for less experienced staff to perform the steps; however it should not be overly detailed whereby it might cause auditors to execute steps routinely and override their judgment. The audit program also offers a place to document “expected target” and “actual” dates for starting and completing the engagement. Total audit hours will also be documented on the audit program.

A well designed audit program provides an outline of the work to be performed, encouraging a thorough understanding of the department being audited. It acts as a guide for assigning work and thereby controlling the project from beginning to end. It creates documentation and evidence that the work was completed. It assists management’s review to ensure quality. It assures management that all risk areas were adequately addressed.

The program should be prepared before the beginning of the fieldwork and approved by the CAO. Audit programs are not set in stone and therefore are modified during the course of the audit depending on test results or new information obtained, with the CAO’s approval.

A template for the “Engagement Work Program” is provided at M:Audit Administrative Info/ASU.OIA Templates/ASU.OIA Audit File Templates/Engagement Work Program.

(500.7) FIELDWORK

Fieldwork is the process of gathering evidence and analyzing and evaluating that evidence as identified in the planning stage of the audit.

The purpose of fieldwork is to accumulate sufficient, reliable, relevant, and useful evidence to reach a conclusion concerning the performance expectations, and to support the audit comments and recommendations. Audit evidence is sufficient when it is factual and would convince an informed person to reach the same conclusion. Evidence is reliable if it consistently produces the same outcomes. It is relevant when it is directly related to the audit comments, recommendations, and conclusions. Useful information supports the audit comments and recommendations.

(500.8) USE OF PERSONAL INFORMATION IN CONDUCTING ENGAGEMENTS

Reference: PA-2300-1

ASU website (<https://password.appstate.edu/pswdchgform/UniversityPolicies.aspx>)

Certification: *Statement of Confidentiality*

Auditors need to consider concerns relating to the protection of personally identifiable information gathered during audit engagements as advances in information technology and communications continue to present privacy risks and threats. Privacy controls are legal requirements in many jurisdictions. Personal information generally refers to data associated with a specific individual or data that has identifying characteristics that may be combined with other information. It includes any factual or subjective information, recorded or not, in any form or media. Personal information includes:

- Name, address, identification numbers, income, blood type.
- Evaluations, social status, disciplinary actions.
- Employee files and credit and loan records.
- Employee health and medical data.

In many jurisdictions, laws require organizations to identify the purposes for which personal information is collected at or before the time of collection. These laws also prohibit using and disclosing personal information for purposes other than those for which it was collected except with the individual's consent or as required by law. It is important that internal auditors understand and comply with all laws regarding the use of personal information in their jurisdiction. If the internal auditor accesses personal information, it may be necessary to develop procedures to safeguard this information. For example, the internal auditor may decide not to record personal information in engagement records in some situations. The internal auditor may seek advice from legal counsel before beginning audit work if there are questions or concerns about access to personal information.

Appalachian State University maintains strict confidentiality requirements and regulations in compliance with the Gramm-Leach-Bliley Act (GLBA), Family Educational Rights and Privacy Act of 1974 as amended (FERPA), and the Health Insurance Portability and Accountability Act (HIPAA) in addition to other federal and state laws. These laws pertain to the security and privacy of all non-public information that may be considered "confidential" or "sensitive" including student information, employee information, and general University information whether it is in hard copy or electronic form.

All University employees are required to read and agree to the online "Statement of Confidentiality." The review and agreement to this policy is required when establishing a secure password for the first time and annually thereafter.

(500.9) WORK PAPERS

Reference: PA-2330-1

Template: Tickmark Legend

Internal auditors must document relevant information to support the conclusions and engagement results. Work papers document the information obtained, the analyses made, and the support for the conclusions and engagement results. The CAO reviews the prepared work papers. Engagement work papers generally:

- Aid in the planning, performance, and review of engagements.
- Provide the principal support for engagement results.
- Document whether engagement objectives were achieved.
- Support the accuracy and completeness of the work performed.
- Provide a basis for the internal audit activity's quality assurance and improvement program.

To encourage consistency across the staff, the CAO has established a "Tickmark Legend" defining certain tickmarks that will be used in audit testing.

Work papers should be:

- Legible and neatly prepared.
- Understandable without the need for detailed supplementary oral explanations.
- Restricted to matters that are materially important and relevant to the objectives of the assignment.

Information should be clear and complete, yet concise. Normally, each work paper should be limited to only one subject and only one side of the paper should be used. Unnecessary or irrelevant work papers should not be prepared or kept in the files.

Each set of work papers should contain sections for purpose, source, scope, and conclusion. As applicable, include the elements of criteria, methodology, condition, cause, effect and recommendation in the appropriate section.

1. **Purpose:** The purpose section of the work papers explains why auditors are doing the audit work and what the auditors are trying to accomplish.
2. **Source:** The work papers should tell the reader where the auditors obtained the information. Auditors should provide enough detail to permit an independent reviewer to find the source of the information recorded in the work paper without assistance.
3. **Scope:** The work papers should also define the parameters of the information gathered and how the auditors did the work. It provides things such as the total number of items available for selection and the number selected, the basis for choosing what the auditors examined, or the period covered.

4. **Conclusion:** Auditors draw conclusions by analyzing and interpreting the results of conversations, observations, tests, analyses, information obtained, and other related facts. These conclusions should be documented in the work papers.

(500.10) AUDIT REPORT

Reference: PA-2410-1

The principal product of an audit is the final report in which the auditor expresses an opinion, presents the audit findings, and discusses recommendations for improvement. To facilitate communication and ensure that the recommendations presented in the final report are practical, the auditor should discuss the rough draft with the client prior to issuing the final report.

Audit reports are to contain, at a minimum, the purpose, scope, and results of the engagement:

1. **Purpose statements** describe the engagement objectives and may inform the reader why the engagement was conducted and what it was expected to achieve.
2. **Scope statements** identify the audited activities and may include supportive information such as time period reviewed and related activities not reviewed to delineate the boundaries of the engagement. They may describe the nature and extent of engagement work performed.
3. **Results** can include findings or recommendations and action plans.
 - a. **Audit Findings** should include the nature of the findings, the criteria used to determine the existence of the condition, the root cause of the condition, the significance of its impact, and what the internal auditors (with management's input) recommend should be done to improve the situation. Fully developed findings are easily understood, convey impact and significance to appropriate management, and enhance the likelihood and sustainability of improvement action. The internal auditor may communicate less significant observations or recommendations informally as "oral findings" or "best practice recommendations."
 - b. **Recommendations and action plans** are based on the internal auditor's findings. They *call for action* to correct existing conditions or improve operations and may suggest approaches to correcting or enhancing performance as a guide for management in achieving desired results. Recommendations can be general or specific. For example, under some circumstances, the internal auditor may recommend a general course of action and specific suggestions for implementation. In other circumstances, the internal auditor may suggest further investigation or study.

Audit reports may also include background information and summaries. Background information may identify the organizational units and activities reviewed and provide explanatory information.

The internal auditor may communicate engagement client accomplishments or “notable strengths,” in terms of improvements since the last engagement or the establishment of a well-controlled operation. This information may be necessary to fairly present the existing conditions and to provide perspective and balance to the engagement final communications.

The internal auditor may communicate the engagement client’s views about the internal auditor’s conclusions, opinions, or recommendations as a “response” to the auditor’s finding.

Certain information is not appropriate for disclosure to all report recipients because it is privileged, proprietary, or related to improper or illegal acts. Disclose such information in a separate report. Distribute the report to the Board if the conditions being reported involve senior management.

The CAO should review and approve the final audit report. The CAO and the auditor-in-charge of the engagement should sign all final reports.

The final audit report is addressed to the Vice Chancellor who is responsible for the department being audited. A copy is sent to the management of the department in addition to the Chancellor. The Board of Trustees Audit Committee receives a copy at the quarterly Audit Committee meeting. Copies of all audit reports are also sent to the Council of Internal Auditing (part of the North Carolina Office of State Budget and Management), UNCGA, and the State Auditor’s Office.

(500.11) EXIT CONFERENCE

Reference: PA-2440-1

The internal auditor-in-charge is responsible for scheduling the exit conference before the CAO issues the final engagement communications. The goal is to have knowledgeable and accountable audit, client, supervisory, and management personnel attend the meeting who can make decisions and implement agreed improvements. The CAO and the auditor-in-charge as well as any staff auditors the CAO deems necessary should also attend the exit conference. The purpose of the exit conference is to inform management of the audit results and the report process, reach final agreement on findings, and finalize planned improvement actions. Management can also provide an update on any actions already taken.

Management of the audited activity should have an opportunity to review a draft of the engagement issues, observations, and recommendations. These discussions and reviews help avoid misunderstandings or misinterpretations of fact by providing the opportunity for the engagement client to clarify specific items and express views about the observations, conclusions, and recommendations.

(500.12) AUDIT REPORT FOLLOW-UP

Reference: PA-2500-1, PA-2500.A1-1

The CAO maintains a spreadsheet to monitor the disposition of findings communicated to management (located in M:Findings Follow-up). If certain reported findings are significant enough to require *immediate action* by management or the Board, the internal audit activity monitors actions taken until the observation is corrected or the recommendation implemented. Planned follow-up reporting is also scheduled in the current year audit plan.

The internal audit activity may effectively monitor progress by:

- Addressing engagement findings to appropriate levels of management responsible for taking action.
- Receiving and evaluating management responses and proposed action plan to engagement findings during the engagement or within 15 days after the engagement results are communicated.
- Receiving periodic updates from management to evaluate the status of its efforts to correct observations and/or implement recommendations.
- Reporting to senior management and/or the Board on the status of responses to engagement findings.

The CAO schedules follow-up activities as part of developing engagement work schedules. A follow-up audit should be scheduled for any audit that had significant findings within six months to one year after the issuance of the final audit report. Follow-up is a process by which internal auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported findings, including those made by external auditors and others. This process also includes determining whether senior management and/or the Board have assumed the risk of not taking corrective action on reported observations. Follow-up audits involve inquiry of management and usually some limited test work. Follow-up audit reports outline the findings that have been completely resolved, those that are partially resolved, and the outstanding or new items that have not been addressed. Follow-up activities should be appropriately documented.

Follow-up audits for State Audit reports are required to be completed within 90 days of the issuance of the final report.

(500.13) GRANTING ACCESS TO ENGAGEMENT RECORDS

All reporting from the OIA should include the following footer:

"This document and related work papers may be subject to the North Carolina Public Records Act (NC Gen Stat 132-1 et seq. and NC Gen Stat 116-40.7). The office of record for this document is the Office of Internal Audits. Please refer requests for release to this office. Release of copies to parties external to the University should be coordinated with the Office of Internal Audits."

(500.14) RETENTION OF RECORDS

ASU OIA retains records in accordance with ASU Policy Manual 105.1 – “Records Retention Schedule” as managed by ASU Records Management.

(SECTION 600)

PERSONNEL

(600.1) RESOURCE MANAGEMENT

Reference: PA 2030-1

The CAO should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved audit plan.

1. Staffing plans and financial budgets, including the number of auditors and the knowledge, skills, and other competencies required to perform their work, should be determined from the annual audit plan, administrative activities, education and training requirements, and audit research and development methods.
2. The CAO should establish a program for selecting and developing the human resources of the internal audit activity. The program should provide for:
 - Developing written job descriptions for each level of the audit staff.
 - Selecting qualified and competent individuals.
 - Training and providing continuing educational opportunities for each internal auditor.
 - Appraising each internal auditor's performance at least annually.
 - Providing counsel to internal auditors on their performance and professional development.

(600.2) MINIMUM TRAINING AND EXPERIENCE

Reference: NC GS 79 §143-746(c), OIA-OSBM Internal Audit Manual

North Carolina General Statute Article 79 §143-746(c), which was adopted during the 2007 legislative session, established the qualifications for any internal auditor employed by a State agency.

This law was modified in 2013 [*General Assembly of NC, Session 2013, Session Law 2013-406, House Bill 417*] and now states that regarding the appointment and qualifications of Internal Auditors: "Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing."

The Office of Internal Audit North Carolina *Internal Audit Manual* is prepared in conjunction with the Council of Internal Auditing for the State of NC for use by state

departments, agencies and institutions in planning and conducting internal audits. Section 3.1.2 "Job Qualifications and Descriptions" states:

3.1.2 Job Qualification and Descriptions

Any internal auditor employed by a State agency shall at a minimum meet the following qualifications as described below. Small internal audit programs (one or two persons) must hire at or above the journey level.

- a. Contributing: Bachelor's degree in Accounting or a discipline related to the program area assigned; or an equivalent combination of education and experience.
- b. Journey: Bachelor's degree in Accounting or a discipline related to the program area assigned and two years of related experience; or a Bachelor's degree in any field and certification/licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information system auditor or related certification or licensure and two years of related experience; or an equivalent combination of education and experience.
- c. Advanced: Bachelor's degree in Accounting or a discipline related to the program area assigned and three years of related experience; or a Bachelor's degree in any field and certification/licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information system auditor or related certification/license and three years of related experience; or an equivalent combination of education and experience.
- d. Manager: Bachelor's degree in Accounting or a discipline related to program area assigned and five years of related experience including three years of audit experience; or a Bachelor's degree in any field and certification/licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information system auditor or related certification/license and five years of related experience including three years of audit experience; or an equivalent combination of education and experience.
- e. Director: Bachelor's degree in Accounting or a discipline related to program area assigned and five years of related experience including three years of supervisory audit experience; or a Bachelor's degree in any field and certification/licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information system auditor or related certification/license and five years of related experience including three years of supervisory audit experience; or an equivalent combination of education and experience.

Job descriptions for all positions within the internal audit program must be maintained. It is the responsibility of the director to ensure job descriptions are accurate and up-to-date.

(600.3) CHIEF AUDIT OFFICER

The CAO is responsible for the administration of the internal audit activity. The CAO is responsible for properly managing the internal audit activity so that:

- a. Internal audit work fulfills the specific and general purposes and responsibilities approved by management and the Board.
- b. Internal audit resources are efficiently and effectively employed.
- c. Internal audit operations conform to the mandatory elements of the IPPF [Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the Standards].

The CAO establishes plans to carry out the responsibilities of the internal audit activity. The work includes directing a comprehensive audit program that provides assurance and consulting services designed to add value and improve the organization's risk management, control, and governance processes.

The CAO is responsible for:

- Directing the identification and evaluation of the organization's audit risk areas and overseeing the development of the annual audit plan.
- Assessing the adequacy of staff resources and expertise in relation to the annual audit plan and recommending enhancements where necessary.
- Overseeing the department's QAIP.
- Directing internal audit staff in the planning, organizing, directing, and monitoring of internal audit operations, including assisting in hiring, training, and professional development, evaluating staff, and taking corrective actions to address performance problems.
- Directing the overall performance of audit procedures, including identifying and defining issues, developing criteria, reviewing and analyzing evidence, and documenting client processes and procedures.
- Directing the audit staff in conducting interviews, reviewing documents, developing and administering surveys, composing summary memos, and preparing working papers.
- Directing the audit staff in the identification, development, and documentation of audit issues and recommendations.
- Communicating the results of audit and consulting projects via written reports and oral presentations to management and the Board of Trustees Audit Committee.
- Developing and maintaining productive client, staff, management, and board relationships through individual contacts and group meetings.

- Pursuing professional development opportunities, including internal and external training and professional association memberships, and sharing information gained with co-workers.
- Representing internal auditing at management and board meetings and with external organizations.
- Performing related work as assigned by the Board of Trustees Audit Committee.
- Benchmarking audit work processes and promoting continuous process improvement.

(600.4) ASSISTANT DIRECTOR

The Assistant Director position aids in managing the auditing operation by either assisting with or having full responsibility for: the establishment of long-term and short-term goals and objectives; the formulation of audit programs and policies; and the overall direction of audit staffing training and development. The position assists with or has full responsibility for audit program design and/or changes to ensure compliance with federal and state laws, audit standards, and legal opinions. The position must tactfully deal with controversial issues/problems and maintain successful working relationships with clients, other employees, administrators, and the public. The position is responsible for self-development by demonstrating a commitment to continuous learning, self-awareness and performance through feedback. The position also has responsibility for conducting advanced professional auditing assignments and working on compliance, departmental, investigative, and other audits as required.

Functional Competencies include:

- Professional Knowledge: Extensive knowledge of internal audit techniques, practices, and procedures. Extensive knowledge of local, state, and federal regulations and statutes governing the area of work. Thorough knowledge of the reliability of systems and internal controls. Ability to identify problems and changing requirements.
- Program Supervision and Administration: Ability to coach and facilitate the enhancement of employee competencies as appropriate to the needs of the work unit. Ability to manage resources effectively to provide for employee training and growth and to meet the operational goals and objectives.
- Critical Thinking: Ability to manage complex work situations. Ability to anticipate and remain alert to potentially problematic situations. Ability to resolve unusual problems. Ability to implement response to a situation based on interpretation of local, state, and federal regulations and standards. Ability to recommend implementation of program policy and procedure changes.
- Change Management: Ability to lead the transition from old to new programs. Ability to participate in the development and implementation of goals and objectives.

- **Communication:** Ability to communicate complex situations and actions internal and external to the organization. Ability to interpret rules and regulations, internal and external to the organization. Ability to document and report more complex or unique issues and ability to effectively articulate written conclusions. Ability to ensure that rules and regulations are interpreted correctly, internal and external to the organization. Ability to develop and maintain professional working relationships in complex and/or difficult situations in order to achieve organizational goals.

(600.5) AUDITOR

The Auditor position descriptions are as follows:

Contributing

This is an entry (contributing) level auditor position. The Contributing Auditor position has responsibility for conducting professional auditing assignments. Types of audits performed include financial, compliance, performance, and follow-up audits. The scope of the position's contact and responsibility extends to all University related functions. This position requires professional knowledge and skills in the auditing field, and must be able to complete an audit from beginning to end. This position is responsible for completing annual cash counts on all University petty cash and imprest cash funds, conducting an annual review of the procedures and receipt books for all cash collection points, and conducting campus-wide inventory testing. This position will have audit related duties in regards to campus-wide quarterly reviews including: Departmental Budget Reconciliations, Campus-Wide Asset Control, Travel Disbursements, University P-Cards, and Foundation Expenditures. The position will also have certain budgetary duties and other duties deemed necessary by the CAO.

Functional Competencies include:

- **Communication:** Apply standards to written communications. Write communications that convey concise and comprehensive information and conform to standards; and provide appropriate documentation to support conclusions. Communicate verbally and/or deliver oral presentations of structured information in a clear, concise, and organized manner.
- **Decision Making:** Recognize problems and identify findings/audits that have established precedents and limited impact. Refer non-standard questions and problems to higher levels.
- **Professional Knowledge:** Knowledge of laws, regulations, and procedures of assigned programs. Knowledge of generally accepted accounting principles, practices, reporting guidelines, and IIA standards applicable to the area of assignment. Knowledge of applicable information technology and internal controls to meet work needs.
- **Examination and Analysis:** Ability to compile, monitor, and audit various financial, systems, and/or program information for accuracy, integrity, and conformance to

rules and regulations. Ability to draw conclusions and prepare audit findings. Ability to present recommendations supported by facts.

Journey

The Journey-level Auditor position has responsibility for conducting professional auditing assignments. Types of audits performed include financial, compliance, performance, investigative and follow-up audits. The scope of the position's contact and responsibility extends to all University related functions. This position requires substantial knowledge and skills in the auditing field, and must be able to complete an audit from beginning to end. Audit assignments will include annual financial and/or compliance audits of University functions such as New River Light and Power, the Department of Athletics, the University Bookstore, Food Services, Financial Aid, and other University accounts. This position will also work on investigations of suspected irregular financial activities of University employees as well as performance and operational audits of University functions. This position will also be assigned monthly access control reviews.

Functional Competencies include:

- *Human Resources Management*: Ability to recommend a selection decision as part of a search committee. Ability to ensure employees have access to tools and information for career development opportunities. Ability to plan and deliver on-the-job training.
- *Communication*: Ability to write communications that convey concise and comprehensive information on matters of a moderately complex nature; and provide appropriate documentation to support conclusions. May review and edit written communications of others. Communicate verbally and deliver presentations to convey information and issues of a moderately complex nature.
- *Decision Making*: Determine findings and make recommendations. Audits may involve unprecedented problems that require research and review of policy and procedures. Based on delegated authority, Identify problems and compliance issues found in an audit.
- *Professional Knowledge*: Considerable knowledge of laws, regulations, and procedures of assigned programs. Knowledge of generally accepted accounting principles, and generally accepted auditing standards and the ability to independently interpret and apply them. Knowledge of applicable information technology to independently perform the auditing/accounting function, including review of access controls. Ability to ensure integrity of information systems, internal controls, and data, including recommending modifications as required.
- *Examination and Analysis*: Ability to compile, monitor, and examine a variety of moderately complex financial and/or program information for accuracy, integrity, and conformance to rules and regulations. Ability to audit financial data, systems, programs and processes, including access controls. Ability to recommend changes and/or determine liability and/or penalties. Ability to identify substantive issues that require research and analysis. Ability to prepare and disseminate audit reports including justifying and defending audit findings and

recommendations. Ability to serve as technical advisor on audit findings and recommendations.

Advanced

This is an advanced level auditor position. The Advanced Auditor position has the responsibility for conducting advanced internal auditing assignments. The individual will be performing detailed audits of information technology systems and infrastructures to verify systems are secure and support the related applications or business processes. This position will also conduct other types of internal audits as required, such as financial, compliance, departmental, and investigative.

Functional Competencies include:

- Human Resources Management: Ability to recommend a selection decision as part of a search committee. Ability to plan and deliver on-the-job training.
- Communication: Ability to write communications that convey concise and comprehensive information on matters of a complex nature. Ability to document conclusions and recommendations that impact policy and/or operations. Ability to communicate verbally and deliver presentations to convey information and issues of a complex nature.
- Decision Making: Ability to independently determine findings and make audit recommendations for unprecedented, complex issues and problems. Ability to serve as a resource for others in resolving unprecedented, non-standard issues and problems. Ability to identify implications and liabilities for management decision-making. Ability to demonstrate advanced technical expertise in auditing decisions and recommendations.
- Professional Knowledge: Ability to apply advanced professional knowledge of auditing processes, procedures, and standards. Ability to apply knowledge of the COBIT internal control framework and a working knowledge of various information systems. The ability to consistently serve as a technical resource.
- Examination and Analysis: Ability to independently identify complex problems with broad scope within the current system. Ability to justify and defend audit findings and recommendations for unprecedented and controversial cases. Ability to research and analyze new and/or changing systems and procedures. The person in this position must have the ability to analyze IT general and application controls to determine if they are sufficient to protect the integrity of the University's system and data.

(SECTION 700)

IDENTIFICATION OF FRAUD

(700.1) IDENTIFICATION OF FRAUD

The OIA supports management's efforts to establish a culture that embraces ethics, honesty, and integrity. The OIA assists management with the evaluation of internal controls used to detect or mitigate fraud, evaluates the organization's assessment of fraud risk, and is involved in any fraud investigations.

- A. **Prevention:** Establishing a culture of integrity is a critical component of fraud control. Senior management must set the tone at the top and model the highest level of integrity. The internal auditors may advise management on methods to ensure integrity. As part of their assurance activities, internal auditors watch for potential fraud risk, may assess the adequacy of related controls, and make recommendations for improvement.
- B. **Detection:** Because the internal auditors are exposed to key processes throughout the University and have open lines of communication with the senior administration and the Audit Committee, they are able to play an important role in fraud detection. The OIA is responsible for responding to issues raised on hotlines, employee tips or through other processes that may lead to the detection of fraud; however, audit procedures alone, even when carried out with due professional care, do not guarantee the detection of fraud.
- C. **Investigation:** The investigation of fraud consists of performing procedures necessary to determine whether fraud, as suggested by the indicators, has occurred. It includes gathering sufficient information about the specific details of a discovered or suspected fraud. Internal auditors, lawyers, investigators, security personnel, and other specialists from inside or outside the organization are the parties that usually conduct or participate in fraud investigations. If a fraud is detected and investigated and it appears there is sufficient evidence, the CAO will notify the University Police and the State Bureau of Investigation (SBI). At this point the OIA may continue with the investigation, issue a report of its findings and conclusions, or turn the investigation over to the SBI. Internal auditors are not expected to have knowledge equivalent to that of a person whose primary responsibility is detecting and investigating fraud.

Access to employee computer files and email accounts will require authorization from the University Attorney to the Chief Information Officer of Information Technology Services.

(700.2) INTERNAL AUDIT ACTIVITIES AND FRAUD

Reference: IPPF Practice Guide – Internal Auditing and Fraud – December 2009

There are various approaches that the CAO may use in considering fraud while conducting internal audit activities:

- **Auditing management controls over fraud.** This includes policies, awareness practices, tone at the top, board and senior management governance (the control environment), as well as related practices, such as risk assessment, assessing the adequacy of preventive and detective controls in managing fraud risk within organizational tolerances, incident management, investigations, and recovery practices. Internal auditing should allocate resources to fraud-related activities in line with the risk of fraud relative to other organizational risks.
- **Auditing to detect likely fraud by testing high-risk processes, with the intention of looking for indicators of fraud, within the organization and with external business relationships.** For example, testing payroll for phantom employees, or testing vendor invoices for overcharges, matching vendor addresses with employee addresses to detect fictitious vendors, or reviewing databases for duplicate transactions.
- **Considering fraud as part of every audit.** For example, brainstorming about fraud risk, evaluating fraud controls, designing procedures that consider the fraud risk, or evaluating errors to determine whether they could be an indication of fraud. The cumulative results may provide perspective on whether management's awareness and risk management programs have been implemented effectively across the organization.
- **Consulting assignments** help management identify and assess risk and determine the adequacy of the control environment for process reviews, new business ventures, or IT applications. Facilitation of management's self-assessment is another example of evaluating fraud risk, ensuring controls are in place to mitigate those risks, and who is monitoring results.

(SECTION 800)

AUDIT COMMITTEE CHARTER

Reference: Approved Audit Committee Charter – March 25, 2016

BACKGROUND

Appalachian State University (the “University”) has chosen to use the North Carolina Office of the State Auditor (the “State Auditor”) to conduct its annual financial audits. The State Auditor determines staff assignments for individual audits, including rotation of Audit managers for each audit client. In addition, constituent institutions have internal audit departments to address the institution’s operating risks and internal controls, review the effectiveness and efficiencies of programs, conduct investigative audits when necessary, and perform other audit-related activities. The UNC Board of Governors has required that the Board of Trustees of each UNC constituent institution have an active committee generally responsible for audit activities and reporting to the Board of Trustees and UNC Board of Governors.

PURPOSE

The primary purpose of the Audit Committee (the “Committee”) of the Appalachian State University Board of Trustees (the “Board”) is to assist the Board in fulfilling its oversight responsibilities for (i) the integrity of the financial statements of the University, (ii) the performance of the University’s internal audit function, and (iii) the assurance that the University is performing self-assessments of operating risks and evaluation of internal controls on a regular basis.

AUTHORITY

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility, including resolving any disagreements between University administration and the auditor regarding financial reporting and any audit findings and recommendations.

ORGANIZATION

The Committee shall be a standing committee of the Board consisting of at least four (4) members of the Board. Each Committee member must be (i) independent of the University’s administrative and executive officers and (ii) free of any relationship that would impair such independence.

If possible, at least one member of the Committee must be a financial expert; the other members should be able to understand financial information and statements. For this purpose, a “financial expert” is someone who has an understanding of generally accepted accounting principles and financial statements; experience in applying such principles; experience in preparing, auditing, analyzing, or evaluating financial information; experience with internal controls and procedures for financial reporting; and an understanding of the audit committee function. It is desirable for the role of

financial expert to be rotated no less frequently than biennially. The members of the Committee shall be selected in the same manner as other committees of the Board.

MEETINGS

The Committee shall meet at least four (4) times a year and may hold additional meetings as circumstances require. The Committee will invite representatives of University administration, auditors, legal counsel, and others to attend meetings and provide pertinent information as necessary. It will also hold private meetings with the University's Chief Audit Officer (the "CAO") at least annually. Meeting agendas shall be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of the meetings shall be prepared.

DUTIES AND RESPONSIBILITIES

The principal duties and responsibilities of the Committee shall be as follows:

- Meet at least four times during the year.
- Review the results of the University's annual financial audit with the North Carolina Office of the State Auditor (OSA) or a designated representative thereof.
- Discuss the results of any other audit performed and report/management letter (e.g., information systems audits, investigative audits) issued by the OSA with the State Auditor or OSA staff, the CAO, and/or the appropriate campus official(s).
- For any audit finding contained within a report or management letter issued by the OSA, review the institution's corrective action plan and receive a report once corrective action has taken place.
- Discuss the results of any audit performed by independent auditors and, if there were audit findings, review the institution's corrective action plan and receive a report once corrective action has taken place in accordance with North Carolina General Statutes 116-30.1, as amended.
- Review all audit reports and management letters issued with respect to entities associated or affiliated with the University as defined in section 600.2.5.2 [R] of the UNC Policy Manual.
- Institute and oversee special investigations as needed.
- Have a functional reporting relationship with the CAO to enable the CAO to meet privately to discuss professional issues freely with the Committee and its chairperson, even though the CAO also will report administratively to the Chancellor.
- Receive and review quarterly reports from the CAO that, at a minimum, report material (significant) reportable conditions and the corrective action plan for these conditions.
- Receive, review, and approve a summary of the annual internal audit plan for the University at the beginning of the annual audit cycle. The annual audit plan

- should be based upon the results of an institutional risk assessment, testing of internal controls, and audits.
- Receive and review an annual summary of audits performed by the CAO's office and a comparison of the plan set forth at the beginning of the cycle to the audits actually performed.
 - Review internal audit reports when issued by the CAO. Ensure that internal audit functions are conducted in accordance with professional standards, including assurance that the University is performing self-assessment of operating risks and evaluation of internal controls on a regular basis.
 - Review and consult with the Chancellor in the appointment, replacement, or dismissal of the CAO and the compensation package.
 - Resolve, or assist the Board in resolving, disagreements between the CAO and University administration concerning audit findings and recommendations.
 - Engage, in accordance with state laws, rules and regulations, independent counsel or other advisors if and as necessary to carry out its duties. The University shall provide funding as determined by the Committee, subject to the oversight of the Board, for payment to any such advisors that may be engaged by the Committee.
 - Prepare and forward to the UNC Board of Governors an annual summary certification of the work performed by the Committee.
 - Confirm annually that all responsibilities outlined in this Charter have been carried out as part of the annual internal assessment.
 - Perform such other duties and tasks as may be assigned or requested from time to time by the Board.

AMENDMENTS

The Committee, with the assistance of the CAO and University legal counsel, should periodically review and assess the adequacy of this Charter, and propose any suggested revisions or additions to the Board for its consideration. Revisions or additions to this Charter shall be made and effective as approved by the Board.

REFERENCE TO ABBREVIATIONS

ASU Board	ASU Board of Trustees
Audit Committee	ASU Board of Trustees Audit Committee
CAO	Chief Audit Officer
IIA	Institute of Internal Auditors
<i>IPPF</i>	<i>International Professional Practices Framework (of the IIA)</i>
IT	Information Technology
NC GS	North Carolina General Statute
OIA	Office of Internal Audits (of ASU)
OSHR	Office of State Human Resources
PA	Practice Advisory (of the <i>IPPF</i>)
P-Card	Procurement card, or purchasing card
QAIP	Quality Assurance and Improvement Program
QAR	Quality Assurance Review
SBI	North Carolina State Bureau of Investigation
<i>Standards</i>	<i>International Standards for the Professional Practice of Internal Auditing (of the IIA)</i>
the University	Appalachian State University
UNC	University of North Carolina (as a system of public institutions)
UNCGA	University of North Carolina General Administration