

# THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION SYSTEM AUDIT OFFICE INTERNAL AUDIT ACTIVITY CHARTER

## INTRODUCTION

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of The University of Texas System (UT System). It assists the UT System in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The System Audit Office provides these services for UT System Administration. Separate internal audit departments provide these services at each UT institution.

## ROLE AND MISSION

The internal audit activity is established by the Board of Regents. The internal audit activity's responsibilities are defined by the Audit, Compliance and Management Review Committee (ACMR) of the Board of Regents as part of its oversight role.

The mission of the System Audit Office is to:

- Provide to management, the System Administration Internal Audit Committee (IAC) and the ACMR independent, objective evaluations of the operations, policies, procedures, and controls at UT System Administration.
- Provide to the internal audit departments of mid-size and small institutions supplemental assistance and resources so that they can provide institutional management, institutional IACs, and the ACMR with independent, objective evaluations of their institutional operations, policies, procedures, and controls.
- Provide for UT System management, the IAC, and the ACMR oversight of all internal audit departments in the UT System to assure that an effective internal audit function which includes a risk-based annual and long-range audit plan, a reporting mechanism, and a quality assurance program, is in place Systemwide.

## PROFESSIONALISM

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes 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' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to UT System's relevant policies and procedures as well as the *Generally Accepted Governmental Auditing Standards* of the Government Accountability Office and the Texas Internal Auditing Act.

## AUTHORITY

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of UT System's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the IAC and the ACMR.

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## **ORGANIZATION**

The Chief Audit Executive will report functionally to the IAC, ACMR and Chancellor of UT System and administratively to the General Counsel to the Board of Regents.

The ACMR will approve all decisions regarding the performance evaluation, appointment, or removal of the Chief Audit Executive as well as the Chief Audit Executive's annual compensation and salary adjustment. The Chief Audit Executive will communicate and interact directly with the ACMR, including in executive sessions and between ACMR meetings as appropriate.

## **INDEPENDENCE AND OBJECTIVITY**

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's judgment.

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 judgments.

The Chief Audit Executive of UT System Administration is also the Chief Audit Executive for UT System. The Chief Audit Executive will confirm to the IAC and the ACMR, at least annually, the organizational independence of the internal audit activity.

## **RESPONSIBILITY**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Evaluating the effectiveness and efficiency with which resources are employed.
- 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 governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.

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- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Assisting in the investigation of significant suspected fraudulent activities within UT System Administration and institutions as requested by the Chancellor, the IAC, or the ACMR.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board of Regents.
- Evaluating specific operations at the request of management, the IAC, or the ACMR, as appropriate.
- Coordinating efforts with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, and external auditors).

### **INTERNAL AUDIT PLAN**

At least annually, the Chief Audit Executive will submit to the IAC and the ACMR a UT System Administration and a Systemwide internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to the IAC and the ACMR.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management, the IAC, and the ACMR. Any significant deviation from the approved internal audit plan will be communicated to senior management, the IAC, and the ACMR through periodic activity reports.

### **REPORTING AND MONITORING**

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Chancellor, the IAC, and the ACMR. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e., within 30 days), by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The System Audit Office will be responsible for appropriate follow-up on engagement findings and recommendations. The System Audit Office will maintain a significant findings tracking system for the monitoring of the findings which are significant at the institutional level.

The System Audit Office will file internal audit reports and related responses or action plans with the budget division of the Office of the Governor, the State Auditor, and the Legislative Budget Board within two weeks after their presentation to the IAC.

In addition, the System Audit Office will prepare the annual report required by the Texas Internal Auditing Act (Section 2102, Texas Government Code) and submit the report to the Chancellor, IAC, the Office of the Governor, the State Auditor's Office, the Sunset Advisory Commission, and the Legislative Budget Board.

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**PERIODIC ASSESSMENT**

The Chief Audit Executive will periodically report to the Chancellor, the IAC, and the ACMR on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Chancellor, the IAC, or the ACMR.

In addition, the Chief Audit Executive will communicate to the Chancellor, the IAC, and the ACMR on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every three years.

**Internal Audit Activity charter**

Approved September 7, 2010