

## **13-00-00 Internal Audit Policy**

### **PURPOSE**

This policy addresses staffing, responsibilities of the internal audit function, audit planning, and reporting on internal audit activities. In addition to this policy, the Tennessee Board of Regents (TBR) Office of System-wide Internal Audit maintains an audit manual. The purpose of the audit manual is to provide for consistency, continuity, and standards of acceptable performance. The Internal Audit Department shall follow the audit manual.

### **INTRODUCTION**

- A. The Internal Audit Department contributes to the improvement of the College's operations by providing objective and relevant assurance regarding risk management, control, and governance processes to management.
- B. Management is responsible for evaluating the College's risks and establishing and maintaining adequate controls and processes.
- C. To provide relevant information, the internal audit activity will consider the goals of the College, management's risk assessments and other input from management in determining its risk-based audit activities

### **INTERNAL AUDIT STANDARDS**

- A. The Internal Audit Department shall adhere to The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing and Code of Ethics (T.C.A. § 4-3-304(9)). The IIA's International Professional Practices Framework (IPPF) incorporates the definition of internal auditing, the International Standards for the Professional Practice of Internal Auditing, the Code of Ethics, and the Core Principles for the Professional Practice of Internal Auditing into one document. It includes the following definition of internal auditing:
  - 1. 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.
- B. Risk is the possibility of an event occurring that will have an impact on the achievement of the College's goals and objectives.
  - 1. Risk is measured in terms of the impact an event may have and the likelihood that the event will occur.

2. To optimize the achievement of the College's goals and objectives, TBR and the College's management act to minimize the related risks by implementing reasonable procedures to control and monitor the risks.
- C. Governance processes are the combination of processes and structures implemented by TBR and the College to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Examples of such processes include:

1. The organizational structure within the College or a department.
2. Policies, guidelines, and procedures instituted by TBR or the College to direct and control a particular activity such as maintenance fees or hiring practices.
3. Preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.
- D. The IPPF includes attribute standards, which address the expected characteristics of organizations and individuals performing internal audit activities and performance standards, which describe the nature of internal audit activities and establish criteria to evaluate the performance of internal audit activities.
- E. To assure compliance with the IIA Standards, the Internal Audit Department must implement and maintain a quality assurance and improvement program that incorporates both internal and external review activities.
  1. Internal reviews include both ongoing and periodic review activities.
  2. External reviews must be performed at least every five years by a qualified, independent reviewer.
  3. Results of quality assurance reviews will be communicated to TBR Audit Committee and College management.

### **INTERNAL AUDIT PERSONNEL**

- A. The College shall employ at least one full-time internal auditor.
- B. The titles of internal audit staff shall be consistent within the overall institutional structure.
- C. Internal Audit Staff:
  1. Internal audit staff must possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual responsibilities.
  2. The internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

3. The Internal Audit Director must be licensed as a Certified Public Accountant, Certified Internal Auditor, and/or a Certified Information Systems Auditor and maintain an active license.
4. The Internal Audit Director must annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held.
5. Other internal audit staff should annually complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held.
6. The Internal Audit Director should communicate concerns to management and the System-wide Chief Audit Executive regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan.
7. Such resources may include the need for additional personnel or personnel with specialized knowledge, such as those with knowledge of fraud, information technology or other technical areas.

**D. Appointments**

1. The appointment of Internal Audit Director as recommended by the President is subject to approval by the Chancellor or designee (T.C.A. §49-14-106).

**E. Compensation**

1. Compensation of the Internal Audit Director is subject to review by the Audit Committee of the Board of Regents.

**F. Termination or Change of Status**

1. The termination or change of status of Internal Auditor Director (T.C.A. § 49-14-106) requires the prior approval of the Chancellor and the Audit Committee of the Board of Regents.

**INTERNAL AUDIT ROLE AND SCOPE**

**A. Reporting Structure**

1. In accordance with T.C.A. § 49-14-102, the System-wide Chief Audit Executive reports directly to the Audit Committee and the Tennessee Board of Regents.
2. The College internal auditors report administratively to the President with audit reporting responsibility to the Audit Committee and the Board through the System-wide Chief Audit Executive.
3. This reporting structure assures the independence of the internal audit function.

- B.** The TBR, Office of System-wide Internal Audit, hosts periodic meetings and communicates with the audit directors on matters of mutual interest.

- C. The Office of System-wide Internal Audit maintains an internal audit manual to guide the internal audit activity at each institution in a consistent and professional manner.
- D. The internal auditors' responsibilities include:
  - 1. Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
  - 2. Evaluating institutional controls to determine their effectiveness and efficiency.
  - 3. Coordinating work with external auditors, program reviewers, and consultants.
  - 4. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
  - 5. Testing the timeliness, reliability, and usefulness of institutional records and reports.
  - 6. Recommending improvements to controls, operations, and risk mitigation resolutions.
  - 7. Assisting the College with its strategic planning process to include a complete cycle of review of goals and values.
  - 8. Evaluating program performance.
  - 9. Performing consulting services and special requests as directed by the Audit Committee, the Chancellor, or the President.
- E. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of duties and responsibilities.
- F. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.
- G. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.
- H. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the College's objectives. Auditors continually evaluate the risk management, internal control, and governance processes. To facilitate these responsibilities, Internal Audit will receive notices or copies of external audit reviews, program reviews, fiscally related consulting reports, cash shortages, physical property losses, and employee misconduct.

## **AUDIT PLANS AND ACTIVITY REPORTS**

- A. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.
- B. At the beginning of each fiscal year, after consultation with the Chancellor or President and other College management, Internal Audit will prepare an annual audit plan. The audit plan must be flexible to respond to immediate issues and will be revised for such changes during the year.
- C. Audit plans and revisions will be reviewed by the System-wide Chief Audit Executive and approved by the Audit Committee.
- D. At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed.
- E. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.

#### **AUDIT ENGAGEMENTS**

- A. Audit engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations are met, auditors will communicate with management regarding the objectives and scope of the engagement.
- B. In planning and during the engagement, auditors should consider and be alert to risks that affect the College's goals and objectives, operations, and resources. Auditors should consider risks based on the operations under review, which include but are not limited to the risk of financial misstatements, noncompliance, and fraud.
- C. An audit work program will be designed to achieve the objectives of the engagement and will include the steps necessary to identify, analyze, evaluate and document the information gathered and the conclusions reached during the engagement.
- D. Working papers that are created, obtained, or compiled by an internal audit staff are confidential and are not an open record (T.C.A. § 4-34-304(9)).

#### **COMMUNICATING AUDIT RESULTS**

- A. A written report that documents the objectives, scope, conclusions, and recommendations of the audit will be prepared for audit engagements providing assurance to the Board and management. Management will include corrective action for each reported finding.
- B. Internal Audit will follow-up on findings or recommendations included in internal audit reports, investigation reports, and State Audit reports. The status of Internal Audit recommendations and/or findings will be monitored through the recommendation logs. For recommendations not corrected at the time of Internal Audit follow-up or the corrective

action due date, management will be asked to provide a revised corrective action implementation date. A written internal audit follow-up report is required for all State Audit reports that include findings, regardless of the current status of audit findings. The Chancellor or the President, along with the Audit Committee, will be notified at the conclusion of a follow-up review if management has not corrected the reported finding or implemented the recommendation.

- C. A written report that documents the objectives, scope, conclusions, and recommendations will be prepared for investigations resulting from allegations or identification of fraud, waste, or abuse. As appropriate to the circumstances, management will include corrective action for each reported finding. In a case where allegations are not substantiated by the review and there are no other operational concerns to report to management regarding the review, the case may be closed by writing a memo to the working paper file documenting the reasons for closing the case.
- D. Reports on special studies, consulting services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
- E. All internal audit reports will be signed by the Internal Audit Director and transmitted directly to the Chancellor or President, as applicable, in a timely manner.
- F. The Internal Audit Director will transmit an electronic copy of the internal audit report to the System-wide Chief Audit Executive.
- G. The System-wide Chief Audit Executive will present significant results of internal audit reports to the Audit Committee quarterly.
- H. The System-wide Chief Audit Executive will provide a copy of each report to the Comptroller's Office, Division of State Audit.

## EXCEPTIONS

Any exceptions to the policy established herein shall be subject to the approval of the System-wide Chief Audit Executive and the Audit Committee.

## SOURCES

**Authority.** TBR Policy 4.01.05.00 *Internal Audit*; Tennessee Code Annotated; Institute of Internal Auditors International Professional Practices Framework.

*Approved by President's Cabinet 11/22/21; updated 2/12/24*