

ARKANSAS STATE UNIVERSITY SYSTEM INTERNAL AUDIT CHARTER

INTRODUCTION

As a service to the Arkansas State University System ("System"), and to add value and improve operations, the Office of Internal Audit (IA) provides independent and objective appraisal activity for the review of internal controls, financial and compliance aspects, and operating procedures. IA activity assists the System in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, compliance, and internal control processes that accomplish the following:

1. Assets are safeguarded, and their use is properly accounted for;
2. Accurate financial and managerial controls exist and function properly;
3. Recommendations are made for appropriate improvements in controls; and
4. Management plans, policies, and procedures are executed efficiently and effectively.

PROFESSIONAL STANDARDS

IA will adhere to The Institute of Internal Auditors' mandatory guidance, including the Definition of Internal Auditing, the Code of Ethics, the Core Principles, 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 Chief Audit Executive (CAE) will periodically report to senior management and the Board of Trustees regarding the IA's conformance to the Code of Ethics and the *Standards*. The CAE will also review IA's charter periodically and present it to senior management and the Board of Trustees for approval.

ORGANIZATION

The CAE has responsibility for the coordination of the System's internal auditing function and operates under the general administrative oversight of the Executive Vice President (EVP). The CAE also reports to the System President and, functionally, to a trustee appointed as a liaison for IA affairs. The EVP is responsible for the day-to-day operation of the internal audit program to provide support and supervision of IA, to ensure the adequacy of the management responses of audit reports issued by the CAE, and to follow up on audit issues.

AUTHORITY

The CAE and staff of IA will do the following:

- Have unrestricted access for communicating and interacting directly with the trustee-appointed liaison;
- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement subject to accountability for confidentiality and safeguarding of records and information;
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
- Obtain assistance from the necessary personnel of the System, as well as other specialized services from within or outside the System, in order to complete the engagement.

Documents and information given to the IA staff during an engagement are handled in the same prudent manner as they are by those employees usually accountable for them. The confidential and privileged character of the documents and information is not affected solely by disclosure to the audit staff.

INDEPENDENCE AND OBJECTIVITY

IA will remain free from interference by any division within the organization, including audit selection, scope, procedures, frequency, timing, or report content, in order to permit an independent and objective mindset, in fact and appearance.

IA has neither the direct responsibility for, nor the authority over, any activities, functions, or tasks it reviews. Accordingly, IA personnel does not develop or write policies or procedures that they may later be called upon to evaluate. Draft materials developed by management may be reviewed for propriety and completeness. However, ownership and responsibility for any materials remain with management.

Acting in the capacity of an internal auditor, audit staff should not perform any operational duties for the System or its affiliates, initiate or approve accounting transactions external to IA, or direct the activities of any System employee not employed by IA, except to the extent that such employees have been assigned to otherwise assist the internal auditors.

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

RESPONSIBILITY

Meaningful internal auditing requires cooperation among the internal auditors, trustee-appointed liaison, campus administration, and the auditee. Each party's responsibilities in this regard include, but are not limited to, the following:

CAE:

- Develop 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 trustee-appointed liaison, the System President, and the EVP;
- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management or the Board of Trustees;
- Maintain a professional audit staff with sufficient knowledge, skills, and experience;
- Issue periodic reports to the System President and the EVP, summarizing results of audit activities (the System President distributes the report(s) to the Board of Trustees);
- Perform investigations of suspected fraudulent activities within the System and notify the EVP, General Counsel, and trustee-appointed liaison in the case of suspected unlawful activity. A report of such an investigation will be provided to the System President, EVP, General Counsel, and appropriate members of campus management (the System President distributes the report to the Board of Trustees); and
- Consider the scope of work of external auditors and other regulatory agencies, as appropriate, to provide optimal audit coverage to the System at a reasonable overall cost.

Internal Audit Office

- Examine and evaluate the adequacy and effectiveness of the System's governance, risk management, and internal controls;
- Examine and evaluate the controls, policies, procedures, and systems in place to safeguard System assets;
- Evaluate the reliability and integrity of information and the efficient and effective use of resources;
- Review compliance with policies, procedures, laws, and regulations;
- Report results and make recommendations to the CAE and management;
- Develop relationships throughout the organization, in order to become a trusted advisor to management on matters of risk management and internal controls;
- Evaluate risk exposure relating to the achievement of the organization's strategic objectives;
- Evaluate the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Monitor and evaluate governance processes;
- Perform consulting and advisory services related to governance, risk management, and controls, as appropriate for the System; including such services as management requests, participation on institutional committees, and participation on implementation teams for information technology projects and business process improvements; and
- Evaluate specific operations at the request of the institutional audit committee or management, as appropriate.

Trustee-Appointed Liaison

- Ensure that internal audit goals and objectives, staffing plans, financial budgets, and audit activities provide adequate support for System goals and objectives;
- Ensure that the audit planning process, including the risk-assessment methodology, considers appropriate aspects of the System's operations and executive management's concerns;
- Approve the annual audit plan and any revisions;
- Review the results of significant audit activities, audit reports, and auditee responses, and monitor the adequacy and timeliness of corrective actions taken in response to audit activities;
- Review the internal audit annual report; and
- Support the IA function and communicate this support within the System Administration.

System Administration

- Support the IA function and communicate this support within campus units;
- Participate in the audit process;
- Provide appropriate, clear, and consistent direction to the System community through written policies and procedures; and
- Monitor the progress of corrective actions for audit findings within campus units.

Auditee

- Cooperate with the audit process by providing unrestricted access to facilities, books and records, information, and personnel;
- Respond in writing, within at least 30 days, to all audit recommendations. Disagreements with recommendations or alternative solutions to identified findings are acceptable when justified in writing. Each response should contain an estimated implementation date; and
- Implement agreed-upon corrective action plans.

AUDIT PLANNING

Based on a prioritization of the audit universe, using a risk-based assessment process, an annual audit plan will be systematically developed for the System. The risk assessment shall consider risks within and across all components of the System. Input will be solicited from the appropriate members of System management and each respective campus for this purpose. Once completed, the audit plan will be submitted to the System President and trustee-appointed liaison for comment and approval. The objective is to continually assess all high-risk areas to evaluate critical business processes throughout the System, as resources permit.

The CAE shall notify the System President when advisory and related client-service activities are requested. The nature and scope of these activities will be agreed upon with the client, and the agreement must include a release of the IA department from management responsibility. When demands for services exceed available resources, which would significantly impact the approved annual audit plan, project priorities will be established, and the audit plan will be amended, subject to the approval of the System President and the trustee-appointed liaison.

REPORTING

IA will ensure that the results of audits are adequately communicated to appropriate management or operating personnel in a formal written report to the trustee-appointed liaison under the signature of the CAE. The formal report will incorporate management's responses to the audit observation(s), and members of management will then itemize the specific actions taken, or planned, to resolve the reported observation(s) and ensure that operational objectives are achieved.

Copies of completed audit reports will be provided to the System President, EVP, and appropriate members of campus management. The System President distributes the report to the Board of Trustees.

IA will produce a quarterly follow-up report on the status of management's implementation of each observation to the System President and EVP. The System President distributes the follow-up report to the Board of Trustees.

QUALITY ASSURANCE PROGRAM

IA will maintain a quality assurance program that will include evaluations of its conformance with the Standards and IA's Code of Ethics. This program includes periodic internal self-assessments and external assessments performed once every five years by an assessment team outside the System. The CAE will communicate the results of external assessments to the System President, EVP, trustee-appointed liaison, Board of Trustees, and senior management.

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