

# UNT SYSTEM™

## Office of Internal Audit

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### INTERNAL AUDIT CHARTER

#### Statement of Purpose

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The Internal Audit department ("Internal Audit") assists the mission of the University of North Texas System and its component institutions, University of North Texas, University of North Texas Health Science Center at Fort Worth, and University of North Texas at Dallas ("System") by providing independent, proactive insights and effective challenge to protect the brand and reputation, enhance and protect organizational value and resiliency and promote the achievement of strategic goals. Internal Audit performs these duties by assessing whether all significant risks to the System are identified, reported to appropriate risk owners and Board of Regent Committee and effectively managed through the system of internal controls, risk management activities and governance structures and processes.

This is accomplished through independent, objective assurance and consulting which brings a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

#### Authority and Standing

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The Internal Audit function is established by The University of North Texas System Board of Regents' Audit and Finance Committee, as outlined in Regent Rules 03.400 and 04.500. To provide for the independence and authority of Internal Audit, its personnel report to the Chief Audit Executive, who reports functionally to the Audit and Finance Committee of the Board of Regents and administratively to the Chancellor of the University of North Texas System.

#### Accountability

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The Chief Audit Executive, in the discharge of his/her duties, shall be accountable to the Audit and Finance Committee on all matters related to the performance of its mandate as described within this Internal Audit Charter (this "Charter"). The Audit and Finance Committee's responsibilities with respect to oversight of Internal Audit are captured within the Board of Regent's Charter.

#### Independence and Objectivity

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Internal Audit acts independently and objectively with respect to all of the work that it performs as mandated by this Charter. All Internal Audit activities will remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit the maintenance of independence and objectivity in all aspects of its activities. Internal Audit shall exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Audit will 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 confirms annually to the Audit and Finance Committee the independence of the Internal Audit activity. Any potential conflict of interest or objectivity concerns shall be reported to the Audit and Finance Committee in a timeframe that is commensurate with the real or perceived conflict.

#### Professional Standards

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Internal Audit governs itself by adherence to the Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code, and the Institute of Internal Auditors' "Code of Ethics." Internal Audit shall conform with the Institute of Internal Auditors' "*International Standards for the Professional Practice of Internal Auditing*," (*Standards*) as contained in the International Professional Practices Framework as well as the Generally Accepted Government Auditing Standards (GAGAS). This guidance constitutes the fundamental

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requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of Internal Audit's performance.

### Authority

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With respect to audit matters, Internal Audit is authorized to:

- Have full, free, and unrestricted access to any and all functions, system records, physical properties, and personnel relevant to any function under review (including vendors and contractors, pursuant to rights to audit which the System undertakes to negotiate in its contracts). Documents and information given to Internal Audit will be handled in the same prudent and professional manner as by those employees normally accountable for them.
- Obtain the necessary assistance from employees in fulfilling their function as requested. In the event any employee of the System or third-party agent shall fail to cooperate fully with Internal Audit or shall otherwise hinder or prevent or attempt to hinder or prevent any audit, the Chief Audit Executive shall immediately and simultaneously report the same to the Chancellor and the Audit and Finance Committee.
- Have free and unrestricted access to the operating committees of the System, the Audit and Finance Committee, the Chairman of the Board of Regents and the Chancellor.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply techniques required to accomplish audit objectives.
- Engage and contract with external parties related to fulfilling the function of the office. Any contract must follow all applicable Board of Regents Rules and UNT System Policies and Procedures.

Internal Audit is not authorized to:

- Perform operational duties for any of the activities it reviews.
- Assume responsibility for the risk management, governance, or internal control activities.
- Install systems or procedures, prepare records, develop policies and procedures, initiate and approve accounting transactions or engage in any management decision and ownership activity that would normally be audited.
- Direct the activities of any employee not employed by Internal Audit, except to the extent such employee has been appropriately assigned to auditing teams, or to otherwise assist the internal auditors.

### Scope

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The primary purpose of the Internal Audit function is to assist Management and the Board of Regents in the effective execution of their responsibilities. Internal Audit may serve in an assurance or advisory capacity. In both capacities, the primary scope of Internal Audit's work is to determine whether the System's network of risk management, control and governance processes as designed and implemented by Management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified, monitored, managed, and reported to appropriate committees and Management.
- Significant financial, managerial, strategic, and operating information is accurate, reliable, and timely to underpin Management and Board of Regents evaluation and decision making.
- Employee's actions are in compliance with all relevant laws, regulations, contractual obligations, policies, standards, and procedures.

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- Resources are acquired economically, used efficiently and adequately safeguarded.
- Initiatives are appropriately evaluated, prioritized, and implemented, including new initiatives, system implementations, and other objectives as appropriate, in alignment with the System's strategic direction.
- Quality and continuous improvement are fostered in the System's processes.
- An effective design, interaction, and monitoring of governance, risk management systems, and processes exist.

In an advisory capacity, Internal Audit provides thought leadership and business insights on matters including, but not limited to the following: improvement opportunities, efficiencies, strategic direction, processes and systems and other reviews as deemed appropriate or as requested by Management or the Audit and Finance Committee.

Results of Advisory Services are communicated to Management for consideration, prioritization, and implementation. Internal Audit maintains its independence at all times during these engagements as Management remains responsible for making the decision on accepting and implementing Internal Audit advice or insight.

### **Responsibilities:**

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Internal Audit shall perform the following duties as described below and submit relevant information to the Audit and Finance Committee for review and/or approval. In addition, Internal Audit will share information with Management and other relevant System stakeholders in the discharge of its duties.

- Understand emerging trends and successful practices in internal auditing and risk and control practices.
- Maintain a professional audit staff with sufficient knowledge, skill, experience, and relevant professional certifications and related required continued professional education requirements to perform its duties.
- Provide oversight and direction for services provided by co-source or outsource arrangements on behalf of Internal Audit.
- Prepare at least annually an Audit Plan ("Audit Plan") based on an appropriate formal risk assessment methodology, incorporating regulatory requirements and significant risks of the System's institutions and activities. The risk assessment is refreshed periodically to reflect new or changing circumstances that may drive change to the Audit Plan.
- Prepare a budget for Internal Audit with the resources (including outsource arrangements to provide staff augmentation or subject matter expertise) sufficient to complete the Audit Plan.
- Execute the Audit Plan and communicate findings to Management, and other reporting entities including the State of Texas, as required.
- Communicate the Audit Plan status and rationale for significant deviations, including change in risks, and other significant changes in resources and Internal Audit methodology.
- Maintain and administer a rigorous follow-up process, including reporting mechanisms, to ensure that management actions to address observations, are executed properly and timely.
- Provide validation of regulatory observations when requested by regulatory agencies, similar to audit observations, to confirm actions to address the observation were properly executed.
- Present at each regular meeting to the Audit and Finance Committee and Management a report containing the following: results of work (including work performed by outside resources); significant

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- issues identified through results of assurance reviews; agreed actions status; and other topical matters, as appropriate. Summaries of work performed outside of assurance reviews are provided on an as needed and as appropriate basis.
- Coordinating or performing internal investigations of suspected fraud, waste and abuse and notifying management and the Board of the results, as appropriate.
  - Serve as facilitator and coordinator, when requested, for all federal, state, and other external audit agencies.
  - Review and assess annually the adequacy of this Charter and if appropriate, recommend changes to the Audit and Finance Committee for approval.

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

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The Chief Audit Executive will annually assess whether the purpose, authority, and responsibility, as defined in this charter, continue to be adequate to enable Internal Audit to accomplish its objectives. The result of this periodic assessment should be communicated to Audit and Finance Committee.

In addition, the Chief Audit Executive will periodically review the quality and effectiveness of the internal audit activity to include compliance with the International Standards for the Professional Practice of Internal Auditing. This includes a Quality Assurance Review as directed by the Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code. The program assesses the efficiency and effectiveness of Internal Audit's activities and identifies opportunities for improvement.

The Chief Audit Executive will communicate to the Audit and Finance Committee on the internal audit activity's quality assurance and improvement program. Results of ongoing internal assessment will be communicated periodically. External assessment will be conducted at least every three years and results communicated to the Audit and Finance Committee.