THE UNIVERSITY OF NORTH CAROLINA SYSTEM

UNIVERSITY OF NORTH CAROLINA SYSTEM OFFICE

Internal Audit Charter

A. Purpose

The purpose of internal audit is to strengthen the University of North Carolina System Office's (UNC System Office) ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

B. Mission

The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

The internal audit function enhances the UNC System Office's:

1. Successful achievement of its objectives.
2. Governance, risk management, and control processes.
3. Decision-making and oversight.
4. Reputation and credibility with its stakeholders.
5. Ability to serve the public interest.

Commitment to Adhering to the Global Internal Audit Standards

The internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' (IIA's) International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit officer will report periodically to the Board of Governors through the Committee on Audit, Risk Management, and Compliance (CARMC) and senior management regarding internal audit's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

The UNC System Office's internal audit function is most effective when:

1. Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards (Standards), which are set in the public interest.
2. The internal audit function is independently positioned with direct accountability to the Board of Governors.
3. Internal auditors are free from undue influence and committed to making objective assessments.

C. Mandate

The UNC System Office is required to establish a program of internal auditing pursuant to North Carolina General Statute § 143, Article 79, which requires the UNC System Office to have an internal audit function that complies with Standards issued by the Institute for Internal Auditors, or if appropriate, Government Auditing Standards issued by the Comptroller General of the United States. This law also established the Council of Internal Auditing with authority to establish internal audit key performance indicators.

Authority

The internal audit function's authority is created by its direct reporting relationship to the CARMC. Such authority allows for unrestricted access to the Board of Governors.

The CARMC authorizes the internal audit function to:

1. Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to the performance of internal audit activities and responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
3. Obtain assistance from the necessary personnel of the UNC System Office and other specialized services from within or outside the UNC System Office to complete internal audit services.

Organizational Position, Independence, and Reporting Relationships

The chief audit officer reports functionally to the CARMC and administratively (i.e., day-to-day operations) to the president or the president's designee. The chief audit officer is positioned at a level in the UNC System Office that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the CARMC, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit officer will report annually to the CARMC and senior management on the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit officer will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit officer will also report, per occurrence, any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the chief audit officer, the CARMC, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

1. A significant change in the Global Internal Audit Standards.
2. A significant reorganization within the UNC System Office.
3. Significant changes in the chief audit officer, the CARMC, and/or senior management.
4. Significant changes to the UNC System Office's strategies, objectives, or risk profile, or to the environment in which it operates.
5. New laws or regulations that may affect the nature and/or scope of internal audit services.

D. CARMC Oversight

To establish, maintain, and ensure that the UNC System Office's internal audit function has sufficient authority to fulfill its duties, the CARMC will:

1. Review the internal audit charter annually with the director of internal audit and discuss:
   - Changes affecting the UNC System Office, such as the employment of a new chief audit officer or changes in the type, severity, and interdependencies of risks to the UNC System Office.
   - The appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
   - Ensuring the chief audit officer has unrestricted access to and communicates and interacts directly with the CARMC, including in private or closed sessions without senior management present.
   - Other topics that should be included in the internal audit charter.
   - The "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
2. Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
3. Approve the risk-based internal audit plan.
4. Review and provide input to the internal audit function's human, technology, and financial resources.
5. Provide input to senior management on the appointment and removal of the chief audit officer, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
6. Review and provide input to senior management on the chief audit officer's performance.
7. Receive communications from the chief audit officer about the internal audit function including its performance relative to its plan and results of annual quality assurance and improvement program activities.
8. Make appropriate inquiries of senior management and the chief audit officer to determine whether scope or resource limitations are inappropriate.

E. Chief Audit Officer Roles and Responsibilities

Ethics and Professionalism

The chief audit officer will ensure that internal auditors:

1. Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
2. Understand, respect, meet, and contribute to the legitimate and ethical expectations of the UNC System Office and be able to recognize conduct that is contrary to those expectations.
3. Encourage and promote an ethics-based culture in the UNC System Office.
4. Report organizational behavior that is inconsistent with the UNC System Office's ethical expectations, as described in applicable policies and procedures.

Objectivity

The chief audit officer will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and communication. If the chief audit officer determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in any other activities that may impair their judgment, including:

1. Assessing specific operations for which they had responsibility within the previous year.
2. Performing operational duties for the UNC System Office or its affiliates.
3. Initiating or approving transactions external to the internal audit function.
4. Directing the activities of any UNC System Office employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Where the chief audit officer has or is expected to have roles and/or responsibilities that fall outside of internal auditing, necessary disclosures and/or safeguards will be established to limit impairments to independence and objectivity. Any long-term non-audit roles and responsibilities assigned to the chief audit officer will require approval by the president and CARMC.

Internal auditors will:

1. Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties.
2. Exhibit professional objectivity in gathering, evaluating, and communicating information.
3. Make balanced assessments of all available and relevant facts and circumstances.
4. Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function

The chief audit officer has the responsibility to:

1. At least annually, develop a risk-based internal audit plan that considers the input of the CARMC and senior management. Discuss the plan with the CARMC and senior management and submit the plan to the CARMC for review and approval.
2. Communicate the impact of resource limitations on the internal audit plan to the CARMC and senior management.
3. Review and adjust the internal audit plan, as necessary, in response to changes in the UNC System Office's business, risks, operations, programs, systems, and controls.
4. Communicate with the CARMC and senior management if there are significant interim changes to the internal audit plan.
5. Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards, relevant laws, and UNC System Office policies.
6. Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services periodically to the CARMC and senior management.
7. Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.

8. Identify and consider trends and emerging issues that could impact the UNC System Office and communicate to the CARMC and senior management as appropriate.
9. Consider emerging trends and successful practices in internal auditing.
10. Establish and ensure adherence to methodologies designed to guide the internal audit function.
11. Ensure adherence to the UNC System Office's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the CARMC and senior management.
12. Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit officer cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the CARMC.

Communication with the CARMC and Senior Management

The chief audit officer will report to the CARMC and senior management regarding:

1. The internal audit function's mandate.
2. The internal audit plan and performance relative to its plan.
3. Internal audit budget and resource requirements.
4. Significant revisions to the internal audit plan and budget.
5. Potential impairments to independence, including relevant disclosures as applicable.
6. Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
7. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the CARMC that could interfere with the achievement of the UNC System Office's strategic objectives.
8. Results of assurance and advisory services.
9. Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the UNC System Office's risk appetite.

If an error or omission within a written communication is identified, the chief audit officer will consult with the CARMC Chair to determine if correction is needed.

Quality Assurance and Improvement Program

The chief audit officer will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the CARMC and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the UNC System Office; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

Other Responsibilities

The chief audit officer has responsibility for the following audit-related activities:

1. Establish and ensure adherence to policies and procedures designed to guide the internal audit function and compliance with requirements set forth by the North Carolina Council of Internal Auditing.
2. Serve as the primary liaison for campus chief audit officers to the UNC System Office and to CARMC.
3. Serve as a primary liaison from the University to the Office of State Auditor and the Central Internal Audit Office on audit-related matters.

F. Scope of Internal Audit Activities

The scope of internal audit services covers the entire breadth of the organization, including all the UNC System Office's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the CARMC and management on the adequacy and effectiveness of governance, risk management, and control processes for the UNC System Office.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified and will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

1. Risks relating to the achievement of the UNC System Office's strategic objectives are appropriately identified and managed.
2. The actions of the UNC System Office's officers, directors, management, employees, and contractors or other relevant parties comply with the UNC System Office's policies, procedures, and applicable laws, regulations, and governance standards.
3. The results of operations and programs are consistent with established goals and objectives.
4. Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the UNC System Office.
6. The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
7. Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Acknowledgements/Signatures

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Jennifer Myers, Chief Audit Officer Date

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Mark Holton, CARMC Chair Date

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Peter Hans, President Date

History of revisions and approvals:
August 2013 (first date tracked in the history), February 2015, May 2015, April 2016, March 2017, May 2018, July 2020, September 2021, September 2022, November 2024, February 2025