

AGENDA ITEM

A-2. Updates to the Committee and Internal Audit Charters Joyce Boni

Situation: Proposed updates to the Charter for the Committee on Audit, Risk Management, and Compliance and the Internal Audit Charter are being presented for review and approval.

Background: As required by North Carolina General Statutes, the North Carolina Council of Internal Auditing, and the standards prescribed by The Institute of Internal Auditors, both the committee and the internal audit function should have a charter to outline its respective roles and responsibilities. These charters must be periodically reviewed and updated as necessary.

Both charters were last updated in April 2016. Since then, the Institute of Internal Auditors implemented changes to the *International Standards for the Professional Practice of Internal Auditing (Standards)*. As a result of the revised *Standards*, the chief audit officer has reviewed the charters and proposed revisions to ensure compliance with the *Standards* and to promote consistency and clarity between the charters.

Assessment: The proposed revisions to both the committee and internal audit charters are attached and include a clean and marked version of each. The revisions are primarily for clarity and do not significantly change the overall responsibility of the committee or the internal audit function.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.



Committee Charter for the Board of Governors
Committee on Audit, Risk Management, and Compliance

I. Background and Authority

- A. All constituent institutions, affiliated entities, and General Administration of the University of North Carolina are subject to audit by the North Carolina State Auditor under Article 5A of Chapter 147 of the North Carolina General Statutes (N.C.G.S.).
- B. Under the authority of N.C.G.S. § 116-30.1, the Board of Governors may designate a special responsibility constituent institution, by expressly finding that each institution to be so designated has the management staff and internal financial controls that will enable it to administer competently and responsibly all additional management authority and discretion to be delegated to it. The Board of Governors, on recommendation of the president, shall adopt rules prescribing management staffing standards and internal financial controls and safeguards.
- C. A special responsibility constituent institution of the University of North Carolina is required by N.C.G.S. § 116-30.8 to have an annual audit conducted by the North Carolina State Auditor.
- D. The University of North Carolina is required to establish a program of internal auditing pursuant to N.C.G.S. § 143-746.
- E. Chapter 600 of the UNC Policy Manual establishes financial, reporting, and audit policies, regulations, and guidelines for the University of North Carolina, University-related private foundations, and associated entities.

II. Purpose

The Committee on Audit, Risk Management, and Compliance (CARMC) will assist the UNC Board of Governors in performing its responsibilities and oversight related to:

- A. The integrity of financial statements.
- B. Governance, systems of internal control, and the audit process.
- C. Compliance with laws and policies.
- D. System-wide enterprise risk management and compliance processes.
- E. Designation of special responsibility constituent institutions.
- F. The required elements of University associated entities.

III. Organization

The Committee on Audit, Risk Management, and Compliance will be a standing committee of the UNC Board of Governors. The chairman of the Board of Governors will select the Committee members and determine the number of voting members.

- A. Committee members must be independent of UNC or associated entity management and free of any relationship that would impair the member's independence.
- B. Committee members may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration.
- C. If practicable, at least one member of the committee should be a financial expert. A financial expert is someone who has an understanding of generally accepted accounting principles and financial statements, preferably relative to higher education; experience in applying such principles; experience in preparing, auditing, analyzing, or evaluating financial information; experience with internal controls and procedures for financial reporting; or an understanding of the audit committee function.
- D. If a financial expert is not available from the members of the Board of Governors, the committee may request the appointment of an independent financial expert in an advisory capacity, upon approval from the full Board of Governors.
- E. An appointed financial expert may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration, other than fees related to the committee appointment.
- F. If feasible, the role of financial expert will be rotated on an annual basis.

IV. Meetings

The committee shall meet no fewer than four times a year. The committee will invite representatives of the constituent institutions, external and internal auditors, representatives of the Office of the State Auditor, legal counsel, and others to attend the meetings and provide pertinent information as required and requested. Meeting agendas and related materials will be prepared and provided in advance to members. Minutes will be prepared.

V. Duties and Responsibilities

The following shall be the principal duties and responsibilities of this committee:

- A. External Audit
 - 1. Receive an annual overview from the State Auditor or a designated representative regarding the annual audits (financial and compliance) of the constituent institutions. Review the results of UNC General Administration's independent audit, including any difficulties encountered and reportable issues.
 - 2. Review other significant audit-related communications from the State Auditor's Office or other external audit groups or firms. Meet separately with the external auditors to discuss any matters that the committee or auditor believes should be discussed privately.
 - 3. Be available to meet during the year with external auditors (the State Auditor, engaged CPA firm, or audit staff) for consultation purposes or to discuss the auditor's judgment about the quality, not just the acceptability, of any accounting principles and underlying estimates in the preparation of a financial statement and other matters required to be communicated to the committee under generally accepted auditing standards.
 - 4. Request, as needed, that the State Auditor rotate the Audit Manager or that the engaged CPA firm rotate the partner assigned to a constituent institution, affiliated entity, or UNC General Administration financial statement audit.
 - 5. Provide a direct channel of communication to the full Board of Governors for the State Auditor and the results of external audits.

B. Internal Audit

1. Review an annual summary of the internal audit plans submitted by each constituent institution and UNC General Administration.
2. Review an annual summary of the internal audit activities overseen by the audit committee of each constituent institution's boards of trustees. This report will incorporate a summary of audits, reviews, investigations, or special assignments completed by the internal audit department of each constituent institution and UNC General Administration, and will note material reportable conditions and the status of their resolution.
3. Serve as the audit committee for UNC General Administration's internal audit function. In this capacity, the committee will:
 - a. Review and approve the Internal Audit Charter.
 - b. Approve the annual internal audit plan and all significant changes to the plan.
 - c. Confirm that internal audit coordinates with external auditors and regulators to provide optimal audit coverage, reduce duplication of work, and use audit resources effectively.
 - d. Review internal audit reports and periodic summaries of external and internal audit activities, including internal audit's performance relative to its annual plan.
 - e. Consider the scope and results of the internal audit activity and evaluate the adequacy of internal audit resources to ensure there are no budgetary or scope limitations that impede internal audit from executing its responsibilities. If necessary, review and approve proposals to outsource internal audit activities.
 - f. Review the organizational structure of the internal audit function to assure its independence and that no unjustified restrictions or limitations are placed upon the internal audit function.
 - g. Receive reports on significant findings and recommendations, along with management's responses. Review and resolve any significant disagreement between management, external auditors, or internal audit over audit related matters.
 - h. Consider the adequacy and effectiveness of the internal control systems, including information technology security and controls, and the system of monitoring compliance with laws and policies. Review the results from auditors, regulatory agencies, or management, including any recommendations and planned actions.
 - i. Oversee the institution's mechanisms for receiving, resolving, and retaining records of complaints regarding accounting, internal control, and operating matters. Receive briefings from management or internal audit regarding any significant complaints, internal control deficiencies, noncompliance, fraud, abuse, or misuse of State property.
 - j. Meet privately with the chief audit officer, as deemed necessary, to discuss matters that the committee or auditor believes should be discussed privately.
 - k. Monitor the effectiveness of the internal audit function, including adherence to The Institute of Internal Auditors' mandatory guidance, which includes the core principles for the profession, definition of internal auditing, code of ethics, and the *International Standards for the Professional Practice of Internal Auditing*. Ensure the chief audit officer complies with all reporting requirements of the NC Office of Internal Audit and UNC policies related to the internal audit function.
 - l. Provide a direct channel of communication to the full Board of Governors regarding relevant internal audit activities. Report committee activities and forward with recommendations to the full Board significant management initiatives resulting from internal/external audit activities.

C. Enterprise Risk Management and Compliance

1. Support the efforts, establishment of, and collaboration among the risk management, ethics, and compliance programs at the constituent institutions, including recommending to the Board University-wide policies regarding internal audit, enterprise risk management, and compliance.
2. Monitor through regular reports from UNC General Administration's general counsel and senior officers the system-wide risk management and compliance processes.

D. Other Responsibilities

1. Monitor the internal control and audit-finding resolution requirements for special responsibility constituent institutions.
2. Review a summary of the annual financial audit reports of the University's major associated entities.
3. Review the required elements of a University associated entity relationship.
4. Participate, when necessary, in training sessions related to system-wide internal controls, enterprise risk management and compliance, and internal/external audit issues.
5. Consult with UNC General Administration's general counsel to review any legal matters that may have a significant impact on a financial statement, overall financial performance, enterprise risk management, or compliance with applicable state, local, or federal laws and regulations.
6. Take other actions, as necessary, to ensure that risk exposures are identified and properly managed to assure the integrity of the finances, operations, and controls of the University.

The committee may modify or supplement these duties and responsibilities as needed.

The committee shall have the authority to engage independent counsel or other advisors as necessary to carry out its duties, in accordance with State rules and regulations. The committee may also request supplemental review or other audit procedures by internal audit, the State Auditor, or other advisors when the circumstances dictate that further review is required. UNC General Administration shall provide appropriate funding, as determined by the committee, for payment to advisors employed by the committee.

The committee shall annually review and assess the adequacy of the committee charter, with the assistance of staff at UNC General Administration. The committee chair will confirm annually that the relevant responsibilities in this charter have been carried out.

Last updated and approved March 2017



**Committee Charter for the Board of Governors
Committee on Audit, Risk Management, and Compliance**

Last updated and approved April 2016

I. Background and Authority

- A. All constituent institutions, affiliated entities, and General Administration of the University of North Carolina are subject to audit by the North Carolina State Auditor under Article 5A of Chapter 147 of the North Carolina General Statutes (N.C.G.S.).
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- C. A special responsibility constituent institution of the University of North Carolina is required by N.C.G.S. § 116-30.8 to have an annual audit conducted by the North Carolina State Auditor.
- D. The University of North Carolina is required to establish a program of internal auditing pursuant to N.C.G.S. § 143-746.
- E. Chapter 600 of the UNC Policy Manual establishes financial, reporting, and audit policies, regulations, and guidelines for the University of North Carolina, University-related private foundations, and associated entities.

II. Purpose

The Committee on Audit, Risk Management, and Compliance (CARMC) will assist the UNC Board of Governors ~~perform in performing~~ its responsibilities and oversight related to:

- A. The integrity of financial statements.
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- C. Compliance with laws and policies.
- D. System-wide enterprise risk management and compliance processes.
- E. Designation of special responsibility constituent institutions.
- F. The required elements of University associated entities.

III. Organization

The Committee on Audit, Risk Management, and Compliance (~~CARMC~~) will be a standing committee of the UNC Board of Governors. The chairman of the Board of Governors will select the Committee members and determine the number of voting members.

- A. Committee members must be independent of UNC or associated entity management and free of any relationship that would impair the member's independence.
- B. Committee members may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration.
- C. If practicable, at least one member of the committee should be a financial expert. A financial expert is someone who has an understanding of generally accepted accounting principles and financial statements, preferably relative to higher education; experience in applying such principles; experience in preparing, auditing, analyzing, or evaluating financial information; experience with internal controls and procedures for financial reporting; or an understanding of the audit committee function.
- D. If a financial expert is not available from the members of the Board of Governors, the committee may request the appointment of an independent financial expert in an advisory capacity, upon approval from the full Board of Governors.
- E. An appointed financial expert may not receive consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, or UNC General Administration, other than fees related to the committee appointment.
- F. If feasible, the role of financial expert will be rotated on an annual basis.

IV. Meetings

The committee shall meet no fewer than four times a year. The committee will invite representatives of the constituent institutions, external and internal auditors, representatives of the Office of the State Auditor, legal counsel, and others to attend the meetings and provide pertinent information as required and requested. Meeting agendas and related materials will be prepared and provided in advance to members. Minutes will be prepared.

V. Duties and Responsibilities

The following shall be the principal duties and responsibilities of this committee:

- A. External Audit
 - 1. Receive an annual overview from the State Auditor or a designated representative regarding the annual audits (financial and compliance) of the constituent institutions ~~and UNC General Administration~~. Review the results of UNC General Administration's independent audit, including any difficulties encountered and reportable issues.
 - 2. Review other significant audit-related communications from the State Auditor's Office or other external audit groups or firms. Meet separately with the external auditors to discuss any matters that the committee or auditor believes should be discussed privately.
 - 3. Be available to meet during the year with external auditors (the State Auditor, engaged CPA firm, or audit staff) for consultation purposes or to discuss the auditor's judgment about the quality, not just the acceptability, of any accounting principles and underlying estimates in the preparation of a financial statement and other matters required to be communicated to the committee under generally accepted auditing standards.
 - 4. Request, as needed, that the State Auditor rotate the Audit Manager or that the engaged CPA firm rotate the partner assigned to a constituent institution, affiliated entity, or UNC General Administration financial statement audit.
 - 5. Provide a direct channel of communication to the full Board of Governors for the State Auditor and the results of external audits.

B. Internal Audit

1. Review ~~and approve~~ an annual summary of the internal audit plans submitted by each constituent institution and ~~the~~ UNC General Administration.
2. Review an annual summary of the internal audit activities overseen work performed by the audit committee of each constituent institution's boards of trustees. This report will incorporate a summary of audits, reviews, investigations, or special assignments completed by the internal audit department of each constituent institution and UNC General Administration, and will note material reportable conditions and the status of their resolution.
3. Serve as the audit committee for ~~the~~ UNC General Administration's internal audit function. In this capacity, the committee will:
 - a. Review and approve the Internal Audit Charter.
 - b. Approve the annual internal audit plan and all significant changes to the plan.
 - c. Confirm that internal audit coordinates with external auditors and regulators to provide optimal audit coverage, reduce duplication of work, and use audit resources effectively.
 - d. Review internal audit reports and periodic summaries of external and internal audit activities, including internal audit's performance relative to its annual plan.
 - e. Consider the scope and results of the internal audit activity and evaluate the adequacy of internal audit resources to ensure there are no budgetary or scope limitations that impede internal audit from executing its responsibilities. If necessary, review and approve proposals to outsource internal audit activities.
 - f. Review the organizational structure of the internal audit function to assure its independence and that no unjustified restrictions or limitations are placed upon the internal audit function.
 - g. Receive reports on significant findings and recommendations, along with management's responses. Review and resolve any significant disagreement between management, external auditors, or internal audit over audit related matters.
 - h. Consider the adequacy and effectiveness of the internal control systems, including information technology security and controls, and the system of monitoring compliance with laws and policies. Review the results from auditors, regulatory agencies, or management, including any recommendations and planned actions. ~~institution's business, financial and information systems controls. If necessary, review with management and internal audit to recommend new or enhanced controls or procedures.~~
 - i. Oversee the institution's mechanisms for receiving, resolving, and retaining records of complaints regarding accounting, internal control, and operating matters. Receive briefings from management or internal audit regarding any significant complaints, internal control deficiencies, noncompliance, fraud, abuse, or misuse of State property, ~~and significant complaints.~~
 - j. Meet privately with the chief audit officer, as deemed necessary, to discuss matters that the committee or auditor believes should be discussed privately.
 - k. Monitor the effectiveness of the internal audit function, including adherence to compliance with The Institute of Internal Auditors' mandatory guidance, which includes the core principles for the profession, definition of internal auditing, code of ethics, and the International Standards for the Professional Practice of Internal Auditing. Ensure the chief audit officer complies with all reporting requirements of the NC Office of Internal Audit and UNC policies related to the internal audit function.

- I. Provide a direct channel of communication to the full Board of Governors regarding relevant internal audit activities. Report committee activities and forward with recommendations to the full Board significant management initiatives resulting from internal/external audit activities.
- C. Enterprise Risk Management and Compliance
1. Support the efforts, establishment of, and collaboration among the risk management, ethics, and compliance programs at the constituent institutions, including recommending to the Board University-wide policies regarding internal audit, enterprise risk management, and compliance.
 2. Monitor through regular reports from UNC General Administration's general counsel and senior officers the system-wide risk management and compliance processes.
- D. Other Responsibilities
1. Monitor the internal control and audit-finding resolution requirements for special responsibility constituent institutions.
 2. Review a summary of the annual financial audit reports of the University's major associated entities.
 3. Review the required elements of a University associated entity relationship.
 4. Participate, when necessary, in training sessions related to system-wide internal controls, enterprise risk management and compliance, and internal/external audit issues.
 5. Consult with the UNC General Administration's general counsel to review any legal matters that may have a significant impact on a financial statement, overall financial performance, enterprise risk management, or compliance with applicable state, local, or federal laws and regulations.
 - 5-6. Take other actions, as necessary, to ensure that risk exposures are identified and properly managed to assure the integrity of the finances, operations, and controls of the University.

The committee may modify or supplement these duties and responsibilities as needed.

The committee shall have the authority to engage independent counsel or other advisors as necessary to carry out its duties, in accordance with State rules and regulations. The committee may also request supplemental review or other audit procedures by internal audit, the State Auditor, or other advisors when the circumstances dictate that further review is required. UNC General Administration shall provide appropriate funding, as determined by the committee, for payment to advisors employed by the committee.

The committee shall annually review and assess the adequacy of the committee charter, with the assistance of staff at UNC General Administration. The committee chair will confirm annually that the relevant responsibilities in this charter have been carried out.

Last updated and approved March 2017~~April 2016~~



UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

Internal Audit Charter

I. Mission

The mission of the University of North Carolina General Administration's (UNC-GA) internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal audit strives to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The internal audit function is dedicated to:

- Conforming to The Institute of Internal Auditor's Code of Ethics and demonstrating the highest level of integrity, objectivity, confidentiality, and competency.
- Building strong and effective working relationships with the UNC-GA's personnel, UNC Board of Governors, and other stakeholders through mutual respect and teamwork.
- Providing quality auditing and consulting services to UNC-GA and its affiliated organizations.

II. Role

The University of North Carolina is required to establish a program of internal auditing pursuant to N.C.G.S. § 143-746. The UNC-GA internal audit function shall be accountable to the UNC Board of Governors through the Committee on Audit, Risk Management, and Compliance (CARMC) and the president.

Internal audit partners and consults with management to help UNC-GA achieve its goals and to support compliance with policies, rules, and regulations. The internal audit staff seeks to proactively focus on the risk exposures that have the greatest impact on UNC-GA while being flexible to react to changing conditions. The internal audit scope encompasses, but is not limited to, examining and evaluating the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality in the execution of assigned responsibilities to achieve the organization's goals and objectives. This includes:

- A. Evaluating risks associated with achieving the organization's goals and objectives and whether risk management process is appropriately identifying and managing the risk exposure.
- B. Evaluating if resources are acquired economically, used efficiently, and adequately protected.
- C. Evaluating if significant financial, managerial, and operating information is accurate, reliable, and timely.
- D. Evaluating the systems used to ensure compliance with policies, standards, procedures, and applicable laws and regulations which could significantly impact the organization.
- E. Evaluating specific operations or programs to assess if results are consistent with established objectives and goals and whether those operations or programs are being carried out as planned.
- F. Monitoring and evaluating the governance processes and assessing if quality and continuous improvement are fostered in the organization's processes.
- G. Performing consulting and advisory services related to governance, risk management, and control.
- H. Reporting periodically on the internal audit's purpose, authority, and responsibility; performance of its audit plan; and the sufficiency of internal audit's resources.
- I. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the president or CARMC.
- J. Evaluating specific operations at the request of management, the president, or CARMC, as appropriate.

III. Professional Standards

The internal audit function will strive to govern itself by adherence to The Institute of Internal Auditors' mandatory guidance, which includes the core principles for the profession, 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 the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit function.

As applicable, the following will also be used to guide internal audit operations: The Institute of Internal Auditors' implementation and supplemental guidance (practice guides); *Government Auditing Standards* issued by the Comptroller General of the United States; relevant state and University policies and procedures; and the internal audit function's standard operating procedures manual.

IV. Independence and Objectivity

All internal audit activities will remain free from interference in determining the internal audit plan, scope, performance of procedures, frequency, timing, and report content.

The audit staff will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information. In addition, a balanced assessment will be made of all the relevant circumstances and the internal audit function will not be unduly influenced by personal interests or by others in forming judgments.

To maintain necessary independence and objectivity, the internal audit function reports administratively to the president or the president's designee and functionally to the Committee on Audit, Risk Management, and Compliance (CARMC). The chief audit officer shall have direct and unrestricted access to the president and the CARMC.

Administrative oversight includes day-to-day oversight such as approval of the chief audit officer's annual leave and travel. Functional oversight by the CARMC includes:

- A. Approve the annual internal audit plan and monitor progress at least quarterly.
- B. Review and accept internal audit reports when issued.
- C. Periodically review and approve the internal audit charter.
- D. Confirm and assure the independence of the internal audit function.
- E. Receive communications regarding the status and/or results of audit activities, approve any significant deviations from the audit plan, and assure the internal audit function has appropriate budget and staff resources.
- F. Meet privately with the chief audit officer as deemed necessary.
- G. Monitor the effectiveness of the internal audit function, including the efforts made to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- H. Make appropriate inquiries of management and the chief audit officer to determine whether there are inappropriate scope or resource limitations.
- I. Resolve disagreements between internal audit and management concerning audit findings and recommendations.

The chief audit officer will confirm to the CARMC, at least annually, the organizational independence of the internal audit function.

V. Responsibility

Internal audit has the responsibility to:

- A. Develop a flexible annual audit plan using appropriate risk-based methodology, considering any risks or control concerns identified by management, and submit that plan to the president and the CARMC for review and approval
- B. Implement the annual audit plan as approved, including as appropriate, any special tasks or projects requested by management and/or the CARMC, to include:
 1. Conduct and coordinate audits, investigations, and reviews related to the programs and operations of the organization. These services may assess the adequacy of the organization's internal control, risk management, and governance process; the economy and efficiency of the policies and procedures governing the organization's programs and operations; and the organization's compliance with policies, laws, or regulations.
 2. Assist and/or conduct the investigation of suspected fraud or abuse within the organization and share the results with the president, the CARMC, and the appropriate levels of management.
 3. As appropriate, provide consulting and advisory services to management that add value and improve the governance, risk management, control processes, and operating procedures without the internal auditor assuming management responsibility. This may include evaluating and assessing significant functions as well as new or changing services, processes, operations, and control processes as deemed necessary.
 4. When necessary, solicit from management corrective actions taken or to be taken on significant findings and recommendations. Management's response should include a timetable for completion or an explanation for any recommendations that will not be implemented. After a reasonable time, conduct an appropriate follow-up on significant finding and report on the progress made by management to implement the corrective actions.
 5. At the conclusion of an engagement, prepare a written report that communicates the engagement's objective, scope, and significant results. When applicable, recommendations and management's response and planned corrective action should be provided. Reports are to be appropriately distributed and the results communicated to the CARMC.
- C. Adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.
- D. Provide quarterly updates to the president and CARMC summarizing the status and/or results of audit activities, including communicating any significant deviation from the approved audit plan.
- E. Keep the president, management, and the CARMC informed concerning significant risk exposures, governance issues, internal control deficiencies, noncompliance, fraud, abuse, misuse of State property, and significant complaints.
- F. Consider the scope of work by other monitoring and compliance functions, as well as the external auditors and regulators, as appropriate, for the purpose of coordinating activities and/or avoiding duplication to provide optimal services to the organization.
- G. As needed, serve as a liaison between UNC-GA management and external auditors and regulators.
- H. Ensure the requirements are met with regard to internal audit activities set forth by the UNC Board of Governors and the North Carolina Council of Internal Auditing.
- I. Maintain sufficient knowledge, skills, competencies, and professional certifications to meet the requirements of the Charter and the internal audit *Standards*.

- J. Maintain a quality assurance and improvement program to: evaluate conformance with The Institute of Internal Auditors' *Standards*, core principles, definition of internal auditing, and code of ethics; assess the efficiency and effectiveness of the internal audit function; and identify opportunities for improvement. The chief audit officer will communicate to CARMC and senior management significant results from the quality assurance and improvement program, including, if necessary, plans to address significant issues noted from ongoing internal assessments, as well as external assessments that are conducted at least every five years.

VI. Authority

With strict accountability for confidentiality and safeguarding records and information, UNC-GA's internal audit function is authorized to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel in accordance with North Carolina General Statutes.
- Provide consulting services to management as deemed appropriate.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where audits are performed, as well as other specialized services from within or outside the organization, if needed to fulfill the internal audit roles and responsibilities.

The internal audit function is not authorized to:

- Have direct operational responsibility or authority over any of the activities to be audited.
- Initiate or approve accounting transactions external to the internal audit function.
- Direct the activities of any UNC-GA employee not employed within internal audit function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the chief audit officer.
- Implement internal controls, develop procedures, install systems, prepare records, or engage in activity that may impair internal auditor's judgment.

Joyce D. Boni, Chief Audit Officer

Date

Walter C. Davenport, Committee Chair

Date

Margaret Spellings, President

Date

Last updated and approved March 2017

UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

Internal Audit Charter

Last updated April 2016

I. Mission

The mission of the University of North Carolina General Administration's (UNC-GA) internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal audit strives to help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

II. Value Statements

The internal audit function is dedicated to:

- ~~Promoting a culture that conforms~~ Conforming to The Institute of Internal Auditor's Code of Ethics and demonstrating the highest level of integrity, objectivity, confidentiality, and competency.
- Building strong and effective working relationships with the UNC-GA's personnel, UNC Board of Governors, and other stakeholders through mutual respect and teamwork.
- Providing quality auditing and consulting services to UNC-GA and its affiliated organizations.

III. II. Role Scope of Work

The University of North Carolina is required to establish a program of internal auditing pursuant to N.C.G.S. § 143-746. The UNC-GA internal audit function shall be accountable to the UNC Board of Governors through the Committee on Audit, Risk Management, and Compliance (CARMC) and the president.

Internal audit partners and consults with management to help UNC-GA achieve its goals and to support compliance with policies, rules, and regulations. The internal audit staff seeks to proactively focus on the risks ~~and~~ exposures that have the greatest impact on UNC-GA while being flexible to react to changing conditions. The internal audit scope encompasses, but is not limited to, examining and evaluating the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality in the execution of assigned responsibilities to achieve the organization's goals and objectives. This includes: Specifically, the auditors work to determine whether the organization's network of risk management, internal controls, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- A. Evaluating risks associated with achieving the organization's goals and objectives and whether risk management process is appropriately identifying and managing the risk exposure.
- ~~• Quality and continuous improvement are fostered in the organization's control process.~~
- B. Evaluating if resources are acquired economically, used efficiently, and adequately protected.
- C. Evaluating if significant financial, managerial, and operating information is accurate, reliable, and timely.
- D. ~~Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.~~ Evaluating the systems used to ensure compliance with policies, standards, procedures, and applicable laws and regulations which could significantly impact the organization.
- E. Evaluating specific operations or programs to assess if results are consistent with established objectives and goals and whether those operations or programs are being carried out as planned.
- F. Monitoring and evaluating the governance processes and assessing if quality and continuous improvement are fostered in the organization's processes. Interaction with the various governance

~~groups occurs as needed.~~

- ~~G. Performing consulting and advisory services related to governance, risk management, and control.~~
- ~~H. Reporting periodically on the internal audit's purpose, authority, and responsibility; performance of its audit plan; and the sufficiency of internal audit's resources.~~
- ~~I. Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the president or CARMC.~~
- ~~J. Evaluating specific operations at the request of management, the president, or CARMC, as appropriate.~~

- ~~● Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.~~
- ~~● Accountability, integrity, and efficiency within the organization are maintained.~~

~~Opportunities for improving management control, operational efficiencies, financial and budgetary management, and the organization's image may be identified during audits. Such opportunities will be communicated to the appropriate level of management.~~

IV. Accountability

~~The internal audit function shall be accountable to the UNC Board of Governors through the Committee on Audit, Risk Management, and Compliance (CARMC) and the President to:~~

- ~~● Provide an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risk in the areas set forth under the mission and scope of work.~~
- ~~● Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.~~
- ~~● Periodically provide information on the status and results of the annual audit plan and the sufficiency of internal audit's resources.~~
- ~~● Coordinate internal audit activities with other control and monitoring functions such as risk management, compliance, security, legal, ethics, environmental, and external audit.~~
- ~~● Maintain audit records in accordance with State's records retention schedule.~~

III. Professional Standards

~~The internal audit function will strive to govern itself by adherence to The Institute of Internal Auditors' mandatory guidance, which includes the core principles for the profession, 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 the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit function.~~

~~As applicable, the following will also be used to guide internal audit operations: The Institute of Internal Auditors' implementation and supplemental guidance (practice guides); *Government Auditing Standards* issued by the Comptroller General of the United States; relevant state and University policies and procedures; and the internal audit function's standard operating procedures manual.~~

IV. Independence and Objectivity

All internal audit activities will remain free from interference in determining the internal audit plan, scope, performance of procedures, frequency, timing, and report content.

The audit staff ~~Chief Audit Officer~~ will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information. In addition, a balanced assessment will be made of all the relevant circumstances and the internal audit function ~~Chief Audit Officer~~ will not be unduly influenced by personal interests or by others in forming judgments.

To maintain necessary independence and objectivity, the internal audit function reports administratively to the president or the president's designee and functionally to the Committee on Audit, Risk Management, and Compliance (CARMC). The chief audit officer shall have direct and unrestricted ~~full and independent~~ access to the president and the CARMC.

Administrative oversight includes day-to-day oversight such as approval of the chief audit officer's annual leave and travel. Functional oversight by the CARMC includes:

- A. Approve the annual internal audit plan and monitor progress at least quarterly.
- B. Review and accept internal audit reports when issued.
- C. Periodically review and approve the internal audit charter.
- D. Confirm and assure the independence of the internal audit function.
- E. Receive communications ~~view periodic summaries~~ regarding the status and/or results of audit activities, approve any significant deviations from the audit plan, and assure the internal audit function has appropriate budget and staff resources.
- F. Meet privately with the chief audit officer as deemed necessary.
- G. Monitor the effectiveness of the internal audit function, including the efforts made to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- H. Make appropriate inquiries of management and the chief audit officer to determine whether there are inappropriate scope or resource limitations.
- I. Resolve disagreements between internal audit and management concerning audit findings and recommendations.

The chief audit officer will confirm to the CARMC, at least annually, the organizational independence of the internal audit function.

~~Administrative oversight by the President or President's designee includes day to day oversight such as approval of the Chief Audit Officer's annual leave and travel.~~

V. Responsibility

Internal audit has the responsibility to:

- A. Develop a flexible annual audit plan using appropriate risk-based methodology, considering~~including~~ any risks or control concerns identified by management, and submit that plan to the president and the CARMC for review and approval.
- B. Implement the annual audit plan as approved, including as appropriate, any special tasks or projects requested by management and/or the CARMC, to include:
 1. Conduct and coordinate audits, investigations, and reviews related to the programs and operations of the organization. These services may assess the adequacy of the organization's internal control, risk management, and governance process; the economy and efficiency of the policies and procedures governing the organization's programs and operations; and the organization's compliance with policies, laws, or regulations.
 2. Assist and/or conduct the investigation of suspected fraud or abuse within the organization and share the results with the president, the CARMC, and the appropriate levels of management.

3. As appropriate, provide consulting and advisory services to management that add value and improve the governance, risk management, control processes, and operating procedures without the internal auditor assuming management responsibility. This may include evaluating and assessing significant functions as well as new or changing services, processes, operations, and control processes as deemed necessary.
4. When necessary, solicit from management corrective actions taken or to be taken on significant findings and recommendations. Management's response should include a timetable for completion or an explanation for any recommendations that will not be implemented. After a reasonable time, conduct an appropriate follow-up on significant finding and report on the progress made by management to implement the corrective actions.
- 1-5. At the conclusion of an engagement, prepare a written report that communicates the engagement's objective, scope, and significant results. When applicable, recommendations and management's response and planned corrective action should be provided. Reports are to be appropriately distributed and the results communicated to the CARMC.
- B.C. Adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.
- C.D. Provide quarterly updates to the president and CARMC summarizing the status and/or results of audit activities, including communicating any significant deviation from the approved audit plan.
- ~~• Conduct and coordinate audits, investigations, and reviews related to the programs and operations of the organization.~~
 - ~~• Provide assurance services to the President and CARMC by assessing: the adequacy of the organization's internal control, risk management, and governance process; the economy and efficiency of the policies and procedures governing the organization's programs and operations; and the organization's compliance with laws or regulations.~~
 - ~~• As appropriate, provide consulting and advisory services to management that add value and improve the governance, risk management, control processes, and operating procedures without the internal auditor assuming management responsibility. Evaluate and assess significant functions and new or changing services, processes, operations, and control processes as deemed necessary.~~
 - ~~• Assist and/or conduct the investigation of suspected fraud or abuse within the organization and notify the President, the CARMC, and the appropriate levels of management of the results.~~
- D.E. Keep the president, management, and the CARMC informed concerning significant risk exposures, governance issues, internal control deficiencies, noncompliance, fraud, abuse, misuse of State property, and significant complaints. ~~When necessary, solicit corrective actions, and report on the progress made to implement the corrective actions.~~
- E.F. Consider the scope of work ~~of~~ by other monitoring and compliance functions, as well as the external auditors and regulators, as appropriate, for the purpose of coordinating activities and/or avoiding duplication ~~to and~~ providing optimal services ~~audit coverage~~ to the organization.
- G. As needed, serve as a liaison between UNC-GA management and external auditors and regulators.
- F.H. Ensure the requirements are met with regard to internal audit activities set forth by the UNC Board of Governors and the North Carolina Council of Internal Auditing.
- G.I. Maintain sufficient knowledge, skills, competencies ~~experience~~, and professional certifications to meet the requirements of the Charter and the internal audit Standards.
- ~~• Keep the President and the CARMC informed of emerging trends and successful practices in internal auditing.~~
- H.J. ~~Maintain~~ Establish a quality assurance and improvement program to: evaluate conformance with The Institute of Internal Auditors' Standards, core principles, definition of internal auditing, and code of ethics; assess the efficiency and effectiveness of the internal audit function; and identify opportunities for improvement. The chief audit officer will communicate to CARMC and senior management significant results from the quality assurance and improvement program, including, if

necessary, plans to address significant issues noted from ongoing internal assessments, as well as external assessments that are conducted at least every five years.

VI. Authority

With strict accountability for confidentiality and safeguarding records and information, UNC-GA’s internal audit function is authorized to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel in accordance with North Carolina General Statutes.
- Provide consulting services to management as deemed appropriate.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of the organization where audits are performed, as well as other specialized services from within or outside the organization, if needed to fulfill the internal audit roles and responsibilities.

The internal audit function is not authorized to:

- ~~Have direct operational responsibility or authority over any of the activities to be audited~~~~Perform any operational duties for the organization or its affiliates.~~
- Initiate or approve accounting transactions external to the internal audit function.
- Direct the activities of any UNC-GA employee not employed within internal audit function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the chief audit officer.
- Implement internal controls, develop procedures, install systems, prepare records, or engage in activity that may impair internal auditor’s judgment~~Make decisions that are the responsibility of management.~~

~~**VII. Standards of Audit Practice**~~

~~The internal audit profession is covered by the International Professional Practice Framework of The Institute of Internal Auditors. This framework includes mandatory elements consisting of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. In addition, North Carolina General Statutes require compliance with Government Auditing Standards issued by the Comptroller General of the United States when applicable. The UNC-GA’s internal audit function will strive to understand these mandatory requirements and will make all attempts to comply.~~

Joyce D. Boni, Chief Audit Officer

Date

Walter C. Davenport, Committee Chair

Date

Margaret Spellings, President

Date

Last updated and approved March 2017