



## The University of North Carolina at Chapel Hill

### Office of Internal Audit Charter

#### I. Background and Authority

A. The University of North Carolina at Chapel Hill is required to establish a program of internal auditing pursuant to G.S. 143-746. The University's Office of Internal Audit shall be accountable to the Board of Trustees (Board) through the Audit, Compliance, and Risk Management Committee (ACRM) and the University Chancellor. The chief audit officer reports functionally to the Chair of the Audit, Compliance, and Risk Management Committee and administratively (i.e., day-to-day operations) to the Chancellor of the University.

#### II. Purpose & Authority

A. To establish, maintain, and assure that the University's internal audit department has sufficient authority to fulfill its duties, the ACRM Committee will govern the Department and:

1. Recommend to the Board for approval of the internal audit charter;
2. Recommend to the Board for approval the risk-based internal audit plan;
3. Receive communications from the chief audit officer on the internal audit department's performance relative to its plan and other matters;
4. Review and recommend to the Board for approval, in consultation with the chancellor, the Department's budget and resources, including the chief audit officer's evaluation and remuneration;
5. Advise the Chancellor or the Board of Trustees regarding the chief audit officer's appointment and/or termination;
6. Make appropriate inquiries of management and the chief audit officer to determine whether there are inappropriate scope or resource limitations, and,
7. 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), the code of ethics, and compliance with the internal audit charter. The ACRM will ensure the audit function completes an external quality assessment review and monitor the implementation of recommended improvements.

B. The chief audit officer will have the unrestricted ability to communicate and interact directly with the Board, including in private meetings without management present.

C. The Board authorizes the internal audit department to:

1. Have full, free, and unrestricted access to all functions, records, property, and personnel necessary to carry out any engagement, provided the department complies with all applicable laws and policies regarding the protection of confidential and/or sensitive records and information.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
3. Obtain assistance from the necessary personnel of the University, as well as other specialized services from within or outside the University, to complete the engagement.

#### III. Independence and Objectivity

A. The chief audit officer will ensure that the internal audit department 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 report content. If the chief audit

officer determines that independence or objectivity may be impaired in fact or appearance, the details of such actual or apparent impairment will be disclosed to appropriate parties.

- B. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- C. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other department that may impair an internal auditor's judgment, including:
  - 1. Assessing specific operations for which they had responsibility within the previous year.
  - 2. Performing any operational duties for the University or its affiliates.
  - 3. Initiating or approving transactions external to the internal audit department.
  - 4. Directing the activities of any University employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- D. Where the chief audit officer has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. Internal auditors will:
  - 1. Disclose any impairment of independence or objectivity, in fact, or appearance, to appropriate parties.
  - 2. Exhibit professional objectivity in gathering, evaluating, and communicating information about the department or process being examined.
  - 3. Make balanced assessments of all available and relevant facts and circumstances.
  - 4. Take necessary precautions to avoid being unduly influenced by their interests or by others in forming judgments.
- E. The chief audit officer will confirm to the ACRM Committee, at least annually, the organizational independence of the internal audit department.
- F. The chief audit officer will disclose to the ACRM Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

#### **IV. Scope of Internal Audit Activities**

- A. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to the ACRM Committee, management, UNC System Office, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the University. Internal audit assessments include evaluating whether:
  - 1. Risks relating to the achievement of the University's strategic objectives are appropriately identified and managed.
  - 2. The University promotes governance, ethics, and integrity and communicates risk and control information.
  - 3. The actions of the University's officers, directors, employees, and contractors comply with the University's policies, procedures, and applicable laws, regulations, and governance standards.
  - 4. The results of operations or programs are consistent with established goals and objectives.
  - 5. Operations or programs are being carried out effectively and efficiently.
  - 6. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly affect the University.
  - 7. Information and the means used to identify, measure, analyze, classify, and report such information is reliable and has integrity.
  - 8. Resources and assets are acquired economically, used efficiently, and protected adequately.

B. The type of audit activities performed by the OIA includes the following:

1. Assessments included on the OIA department's annual work plan including any requested supplemental assessments relating to underlying work ("Work Plan Projects").
2. Other projects within the scope of activities in Section IV.A above upon the request of the Chancellor, projects presented by the chief audit officer to the Chancellor for consideration and approval, or Board of Trustee member requests upon an affirmative vote of a majority of the members of the ACRM Committee ("Special Projects").
3. Consulting or consultative services to assist in the investigative or operational review of other University units ("Advisory Projects"), provided the OIA does not assume management responsibility, under the following conditions: (i) the university unit requests the assistance of the OIA and the request is approved by the vice chancellor or dean to which that unit reports, (ii) at the request of the Chancellor in his or her consultation with the Chair of the ACRM, or (iii) for Board of Trustee requests upon an affirmative vote of the majority of the members of the ACRM Committee. Examples include providing advice and information on internal controls, fraud, risk management, and sound business practices. This includes a limited scope review of current practices, assessing compliance, and interpreting policies and procedures.
4. Working with the UNC System Office, professional organizations, and serving as a liaison between the university and external auditors.
5. Investigating matters presented through the Carolina Ethics Line as deemed appropriate by the chief audit officer for the OIA to review.
6. OIA participating in standing committees, ad-hoc meetings, search committees, and responding to routine questions (policy interpretation, internal control structures, fraud, etc.) as deemed appropriate by the chief audit officer.
7. No individual officer, employee, or Trustee may request the Chief Officer to initiate any audit activities except as permitted by this Section IV.B.

C. The chief audit officer will report periodically to senior management and the ACRM Committee regarding:

1. The internal audit department's purpose, authority, and responsibility.
2. The internal audit department's plan and performance are relative to its plan.
3. The internal audit department's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues.
4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the ACRM Committee.
5. Results of audit engagements, special projects, investigations, or other activities.
6. Resource requirements.
7. Any response to risk by management that may be unacceptable to the University.

D. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## V. Reporting and Report Distribution

A. The chief audit officer or a designee will prepare a written report following the conclusion of each Work Plan Project, Special Project, and Carolina Ethics Line Project. Written Reports for Advisory Projects will be completed when deemed appropriate by the Chancellor and/or the ACRM chairperson. Written reports and close-out letters will be distributed to relevant and appropriate members of university management and UNC Board of Trustee members, as determined by the Chief Audit Officer in his or her reasonable discretion. The Chief Audit Office will also deliver a redacted copy of any Work Plan, Special Project, and Carolina Ethics Line Project report to the North Carolina Council of Internal Auditing. The chief audit officer will distribute Advisory Project Reports, if applicable, at the direction and request of the Chancellor and/or the ACRM.

Internal audit reports will typically include management's response regarding corrective action taken or to be taken regarding the specific findings. Management's response should include a timetable for the anticipated completion of planned corrective action and an explanation for any findings that will not be corrected. If management elects not to correct a finding, its response should include a statement accepting the risk of choosing not to address a reported condition.

## **VI. Responsibility**

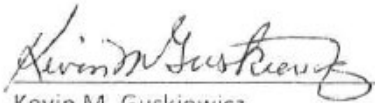
A. The chief audit officer has the responsibility to:

1. Submit, at least annually, to senior management and the ACRM Committee a risk-based internal audit plan for review and approval.
2. Communicate with senior management and the ACRM Committee about the impact of resource limitations on the internal audit plan.
3. Review and adjust the internal audit plan, as necessary, in response to changes in the University's business, risks, operations, programs, systems, and controls.
4. Communicate with senior management and the ACRM Committee any significant interim changes to the internal audit plan.
5. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties. If internal audit plan engagements are not completed by fiscal year-end, communicate to the ACRM Committee the rationale as to why engagement work was unable to be completed.
6. When necessary, assist or conduct consulting/consultative engagement, investigation, and special project engagement requests of significant noncompliance, control deficiencies, as well as suspected misuse, fraud, or abuse presented to the OIA for action by university leadership or by the ACRM Committee as defined in the ACRM Charter.
7. Follow up on engagement findings and corrective actions, and report periodically to senior management and the ACRM Committee any corrective actions not effectively implemented.
8. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
9. Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
10. Ensure trends and emerging issues that could impact the University are considered and communicated to senior management and the ACRM Committee as appropriate.
11. Ensure emerging trends and successful practices in internal auditing are considered.
12. Establish and ensure adherence to policies and procedures designed to guide the internal audit department.
13. Ensure adherence to the University's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the ACRM Committee.
14. Comply with Article 79 of Chapter 143 of the North Carolina General Statutes (NCGS) establishing the authority vested in the UNCH-CH Internal Audit function.
15. Ensure conformance of the internal audit department with the International Standards for the Professional Practice of Internal Auditing (Standards), with the following qualifications:
16. If the internal audit department is prohibited by law or regulation from conforming with certain parts of the Standards, the chief audit officer will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
17. If the Standards are used in conjunction with requirements issued by other authoritative bodies, the chief audit officer will ensure the internal audit function conforms with the Standards, even if the internal audit function also conforms with the more restricted requirements of other authoritative bodies.

**VII. Quality Assurance and Improvement Program**

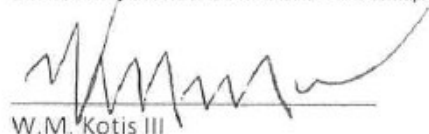
- A. The internal audit department will maintain a quality assurance and improvement program that covers all aspects of the internal audit department. The program will include an evaluation of the internal audit department's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit department and identifies opportunities for improvement.
- B. The chief audit officer will communicate to the University Chancellor and the ACRM Committee on the internal audit department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the University.

Approved:



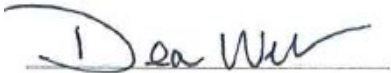
Kevin M. Guskiewicz  
Chancellor  
University of North Carolina at Chapel Hill

3-24-23  
Date



W.M. Kotis III  
Chair, Audit, Compliance, and Risk Management Committee  
University of North Carolina at Chapel Hill Board of Trustees

3/23/23  
Date



Dean A. Weber  
Chief Audit Officer  
University of North Carolina at Chapel Hill

3 | 24 | 23  
Date