



**Internal Audit  
Charter**

# Charter

## Purpose and Mission

The purpose of Central Michigan University's Internal Audit Department is to provide an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Central Michigan University. The mission of the Department is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Department assists Central Michigan University in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the university's governance, risk management, and internal control.

**Assurance services** include audits and follow-up reviews designed to evaluate the adequacy and effectiveness of internal controls and associated policies and procedures. Audit objectives may include, but are not limited to, assessing whether controls, and risk management and governance processes are designed and functioning to provide assurances that:

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable and timely.
- Employees comply with policies and procedures and applicable laws and regulations.
- Resources are used efficiently and are properly safeguarded.
- Programs achieve associated goals and objectives.

**Consulting services** may range from formal engagements with defined scope and objectives, to advisory activities, such as providing informal guidance in response to general inquiries, or participating on University committees. However, in all cases, IA functions only as an advisor, with management responsible for final decisions.

## Standards for the Professional Practice of Internal Auditing

The Internal Audit Department shall govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The Director of Internal Audit shall report periodically to senior management and the Audit Committee of the Board of Trustees regarding the Internal Audit Department's conformance to the Code of Ethics and the *Standards*.

## Authority

The Director of Internal Audit, in the performance of his/her duties, shall report administratively to the President and functionally to the Board Chair through the Board's Audit Committee. To establish, maintain, and assure that Central Michigan University's Internal Audit Department has sufficient authority to fulfill its duties, the Audit Committee of the Board of Trustees will:

- Consider and recommend the internal audit charter to the Board, as appropriate.
- Approve the risk-based internal audit plan.
- Receive communications from the Director of Internal Audit on the Internal Audit Department's performance relative to its plan and other matters affecting conduct of the internal audit functions.
- Make appropriate inquiries of management and the Director of Internal Audit to determine where there is inappropriate scope or resource limitations.
- Through the Audit Committee Chair, concur in the appointment or removal of the Director of Internal Audit.

- Through the Audit Committee Chair, review the Director's annual performance appraisal, compensation, and salary adjustments.

It is the intention of the Board that the Director of Internal Audit shall:

- Have access to the Audit Committee at any time with regard to matters affecting conduct of the internal audit function;
- Provide a report on his/her activities directly to the Audit Committee or its Chair describing the current status of work toward the goals of the annual audit plan;
- Be present to advise the Audit Committee, as may be appropriate, when the external auditor presents its audit results to the committee;
- Have authority to use external service providers to supplement existing in-house Internal Audit functions or provide expert knowledge to help execute certain areas of the audit plan. The Director of Internal Audit shall retain oversight of all outsourced arrangements.
- Communicate and interact with the Board through the Audit Committee in executive sessions and between Board meetings as appropriate.

The Board authorizes the Internal Audit Department to:

- Have full, free, and unrestricted access to all functions, university information technology systems, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate Department resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of Central Michigan University, as well as other specialized services from within or outside Central Michigan University, in order to complete the engagement.

## Independence and Objectivity

The Director of Internal Audit shall:

- 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 regarding audit selection, scope, procedures, frequency, timing or report content.
- Establish safeguards to limit impairments to independence or objectivity where the Director of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing.
- Confirm to the Board, at least annually, the organizational independence of the Internal Audit Department.
- Disclose to the Audit Committee of the Board of Trustees, any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Internal auditors shall:

- 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.
- Have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors shall not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
  - Assessing specific operations for which they had responsibility within the previous year.

- Performing any operational duties for Central Michigan University or its affiliates.
  - Initiating or approving transactions external to the Internal Audit Department.
  - Directing the activities of any Central Michigan 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.
- Disclose to the Director of Internal Audit at the beginning of each audit engagement, any potential impairment of independence or objectivity, in fact or appearance.
  - Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
  - Make balanced assessments of all available and relevant facts and circumstances.
  - Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

## Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee of the Board of Trustees, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Central Michigan University. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of Central Michigan University's strategic objectives are appropriately identified and managed.
- The actions of Central Michigan University's officers, directors, employees, and contractors are in compliance with Central Michigan University's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Central Michigan University.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director of Internal Audit shall report periodically to senior management and the Audit Committee of the Board of Trustees regarding:

- The Internal Audit Department's purpose, authority, and responsibility.
- The Internal Audit Department's plan and performance relative to its plan.
- The Internal Audit Department's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee of the Board of Trustees.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to Central Michigan University.

The Director of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Internal Audit Department may perform advisory and related client service activities, the nature and scope of which shall be agreed upon with the client, provided the Internal Audit Department does not assume management responsibility.

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

While the approved annual audit plan shall prescribe assignment priorities for the Director of Internal Audit, he/she shall be concerned with any phase of institutional activity where the internal audit function may provide a beneficial service to management. This management service involves going beyond the accounting and financial records to obtain a full understanding of the operations under review and may require the following activities:

- Examination of transactions for accuracy and compliance with institutional policies.
- Evaluation of financial and operational procedures for adequate and effective internal controls and safeguarding of assets.
- Testing of the timeliness, reliability, and usefulness of institutional records and reports.
- Evaluation of the economical and efficient use of resources.
- Monitoring the development and implementation of methods, systems, procedures, and major revisions to them, including those pertinent to computer applications.
- Evaluation and monitoring of the computer center's system of internal control to ensure adequate security and controls related to hardware, software, data, and operating personnel; and to ensure retrieval of necessary data for audit purposes.
- Determination of the level of compliance with required internal policies and procedures, state and federal laws, and government regulations; and appraisal of the effectiveness and appropriateness of internal policies and procedures under current conditions.
- Program performance evaluation.
- Liaison with external auditors.

## Internal Audit Plan

The Director of Internal Audit has the responsibility to:

- Submit, at least annually, to senior management and the Audit Committee of the Board of Trustees, a risk-based internal audit plan for review and approval. The plan shall coincide with the fiscal year of the university. Further, the development of the audit plan should include a two-year plan for scheduling audits of university departments and activities. The internal audit plan shall be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board, and the external auditor. The audit plan shall be implemented by the Director of Internal Audit upon approval by the Audit Committee, which approval shall occur no later than July of each fiscal year.
- Review and adjust the plan, as necessary, in response to changes in the university's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Audit Committee of the Board of Trustees any significant changes to the internal audit plan.
- 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.

## Reporting and Monitoring

A written report shall be prepared and issued by the Director of Internal Audit or designee following the conclusion of each internal audit engagement and shall be distributed as follows:

- Chair, Board of Trustees
- Board Audit Committee
- President
- Vice President of the audit area
- Director/Dean of the audit area
- Manager/department head of the audit area
- Members of the Board of Trustees upon request
- Internal audit reports containing items concerning internal control shall also be distributed to the vice president for finance and administrative services.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e., within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The Internal Audit Department shall be responsible for appropriate follow-up on engagement findings and recommendations and reporting to senior management and the Audit Committee of the Board of Trustees any corrective actions not effectively implemented.

## Quality Assurance and Improvement Program

The Internal Audit Department shall maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program shall include an evaluation of the Internal Audit Department's conformance with *the Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the Internal Audit Department and identifies opportunities for improvement.

The Director of Internal Audit shall communicate to senior management and the Board on the Internal Audit Department's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

## Other Responsibilities

The Director of Internal Audit has the responsibility to:

- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- 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.
- Ensure trends and emerging issues that could impact Central Michigan University are considered and communicated to senior management and the Audit Committee of the Board of Trustees as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the Internal Audit Department.

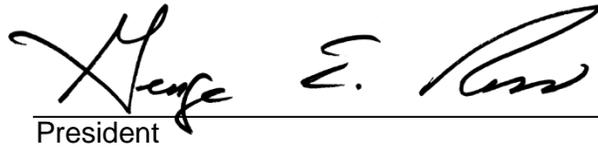
- Ensure adherence to Central Michigan University's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts shall be resolved or otherwise communicated to senior management and the Audit Committee of the Board of Trustees.
- Ensure conformance of the Internal Audit Department with the *Standards*, with the following qualifications:
  - If the Internal Audit Department is prohibited by law or regulation from conformance with certain parts of the *Standards*, the Director of Internal Audit shall ensure appropriate disclosures and shall ensure conformance with all other parts of the *Standards*.
  - If the *Standards* are used in conjunction with requirements issued by [other authoritative bodies], the Director of Internal Audit shall ensure that the Internal Audit Department conforms with the *Standards*, even if the Internal Audit Department also conforms with the more restrictive requirements of [other authoritative bodies].

## Internal Audit Department Charter

Approved this 28th day of June, 2018

  
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Director of Internal Audit

  
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Chair, Board of Trustees

  
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President