

## BOARD OF REGENTS

### BRIEFING PAPER

#### **Agenda Item Title: Proposed Changes to the Internal Audit Charter**

**Meeting Date: December 1-2, 2016**

#### **BACKGROUND & POLICY CONTEXT OF ISSUE:**

The International Internal Audit Standards Board (IIASB) finalized and announced changes to the International Standards for the Professional Practice of Internal Auditing (Standards) in October 2016, and these changes will become effective January 2017. These Standards guide how our internal audits are conducted, and ensure our department has a proper framework for performing and coordinating with other value-added activities.

During the exposure draft period, the Audit Committee was provided with an update on potential changes (see June 2016 Audit Committee minutes). The anticipated changes included revisions to the Internal Audit Charter to incorporate core principles that guide all audit activity and other mandatory elements.

With the changes to the Standards finalized, explicit updates are necessary to ensure our activities continue to reside within the updated framework.

#### **SPECIFIC ACTIONS BEING RECOMMENDED OR REQUESTED:**

Replace the existing policy section with this revised policy, which reflect the updated Standards and recognize mandatory guidance. Changes to the Charter reflect new standards as well as updates to existing standards. The most notable examples of areas addressed by these standards are:

- Recognition of the Core Principles for the Professional Practice of Internal Auditing and other mandatory elements
- Chief Auditor taking on roles and responsibilities beyond traditional internal auditing
- Coordination with other assurance and consulting activities with the System
- Potential objectivity-impairing situations of performing assurance role after a previous consulting role
- Relationship between the core principles and the Standards
- Required communications between the Chief Auditor, Audit Committee, and senior management.

#### **IMPETUS (WHY NOW?):**

Action is needed to incorporate the proposed revisions into the Charter. The updated Standards become effective January 2017, so changes should be implemented timely to ensure general conformance.

#### **BULLET POINTS TO SUPPORT REQUEST/RECOMMENDATION:**

- The Standards being updated are recognized worldwide and are used to do determine the quality of our internal audit department on a periodic basis.
- The updates to these Standards complement the already-strong framework from which the Internal Audit team works.
- The updates to these Standards reflect the proper direction of the Internal Audit department and its shift to focus on higher risk / value-added activities.
- The updates to these Standards provide a platform for coordination with other important assurance-providing activities within the organization (e.g. compliance activities, risk management activities), a critical component of Internal Audit's role in Enterprise Risk Management.

#### **POTENTIAL ARGUMENTS AGAINST THE REQUEST/RECOMMENDATION:**

The current Charter could be interpreted as satisfactory and may already implicitly satisfy the updated Standards without the need for additional coordination.

#### **ALTERNATIVE(S) TO WHAT IS BEING REQUESTED/RECOMMENDED:**

No change to current policy.

**COMPLIANCE WITH BOARD POLICY:**

- Consistent With Current Board Policy: Title #\_\_\_\_ Chapter #\_\_\_\_ Section #\_\_\_\_
- X Amends Current Board Policy: Title #\_4\_ Chapter #\_9\_ Section #\_\_1-9\_\_
- Amends Current Procedures & Guidelines Manual: Chapter #\_\_\_\_ Section #\_\_\_\_
- Other:\_\_\_\_\_
- Fiscal Impact: Yes\_\_\_\_ No\_\_\_\_  
Explain:\_\_\_\_\_

**Title 4 - Codification of Board Policy Statements**

**Chapter 9**

**NEVADA SYSTEM OF HIGHER EDUCATION  
INTERNAL AUDIT, FINANCE AND ADMINISTRATION POLICIES**

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## A. Internal Audit Department Charter

### Section 1. Nature

The Internal Audit Department is established as an independent and objective assurance and consulting activity within the Nevada System of Higher Education (NSHE) for the review of operations as a service to management. It assists NSHE in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organizations risk management, control and governance processes.  
(B/R 3/14)

### Section 2. Mission, Objective and Scope

***The Mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.*** The objective of ***the Internal Audit Department*** is to assist all levels of the NSHE management in the effective discharge of their responsibilities, by furnishing them with analyses, appraisals, recommendations and pertinent comments concerning the activities reviewed. The Internal Audit Department is concerned with any phase of activity where it can be of service to management. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. The attainment of this overall objective involves such activities as:

1. Reviewing and appraising the soundness, adequacy, and efficient application of accounting, financial, and operational controls at executive and staff levels.
2. Ascertaining the extent of compliance with established policies, plans, and procedures.
3. Determining whether significant risks appropriately identified and managed.
4. Ascertaining the reliability of management data developed and reported within the NSHE.
5. Recommending appropriate improvements in internal accounting and operations where controls have been found to be malfunctioning, inefficient, or where controls should be instituted and none exist. Appraising the effectiveness of procedures, as modified, to ensure that deficiencies are satisfactorily resolved.
6. Recommending appropriate improvements to systems, processes and organizational structures to provide accurate, timely and reliable financial and operational information.
7. Fostering quality and continuous improvement in NSHE's risk management and control processes. Reporting the results of examinations in a timely manner and reviewing the timeliness of corrective actions.
8. Confirming information technology and data governance supports NSHE's strategies and objectives.
9. Ascertaining whether information security practices adequately safeguard NSHE data

assets and comply with applicable policies and regulations.

- 10. *Sharing information and coordinating activities with other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.***

11. Designing, installing, and operating systems are not audit functions; however, the internal auditor's objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedures before they are implemented.

(B/R 12/14)

### **Section 3. Authority and Responsibility**

The internal audit activity is established by the Board of Regents. The internal audit activity's responsibilities are defined by the Board as part of its oversight role. The Internal Audit Department is provided with authority for full access to all of the NSHE records, properties, and personnel relevant to the subject of review. The Department is free to review and appraise policies, plans, procedures, and records.

The responsibilities of the Department are as follows:

1. Develop a sophisticated internal audit program that will include evaluation of the effectiveness of financial and related operational controls and review of compliance by NSHE personnel with NSHE policies and procedures.
2. Maintain the capacity to:
  - a. Perform audits to independently assess governance, risk management and control processes throughout NSHE.
  - b. Provide consulting services, with the mutual agreement of the "client", to improve NSHE governance, risk management and control processes.
  - c. Investigate, as necessary, allegations of improper activities including fraud, misuse of university resources, and unethical behavior or actions.
3. Periodically measure and continually improve the efficiency of internal audit activity by means of a quality control program, effective use of technology, and proactive performance management. Institute appropriate budgetary and cost control over the auditing program.
4. Institute controls to ensure that audit findings have been reviewed with the management responsible for operations of the functions examined; see that findings are presented to management at various levels so as to motivate corrective actions; and arrange for the development of appropriate comments and recommendations for inclusion in periodic condensed reports to be presented to the Board of Regents' Audit Committee.
5. Make available to the independent public accountants working papers, copies of audit reports, and pertinent analyses to aid them in determining the scope of their examination. Inform the independent public accountants and other outside audit agencies of the internal audit schedule to avoid duplication of effort and to maximize the benefits of the total investment in audit activities.
6. Maintain a staff with the skills, experience and professional certifications to meet the Department's scope of responsibilities and aligned with NSHE's risks.

7. Recommend changes to policy or required practices to sustain an effective balance between the magnitude of risk, the materiality of failed control, and the cost of compliance.
8. The internal audit activity will govern itself by adherence to appropriate internal auditing standards including, but not limited to, The Institute of Internal Auditors' ***Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the*** <sup>[guidance including the]</sup> ~~Definition of Internal Auditing [the Code of Ethics, and the Internal Standards for the Professional Practice of Internal Auditing (Standards)]~~.
9. Coordinate all activities of the Department with others so as to best achieve the audit objectives and the objectives of the NSHE, including spreading adoption of effective practices ***and consideration of trends and emerging issues that could impact NSHE.***

In performing its functions, the Internal Audit Department has neither direct responsibility for, nor authority over, any of the activities that are reviewed. Therefore, the review and appraisal activity does not in any way relieve other persons in the organization of the responsibilities assigned to them.

(B/R 12/14)

#### **Section 4. Independence**

In order to maintain independence from the System Administration and maximize public accountability, the chief internal auditor reports to the Audit Committee of the Board of Regents for primary oversight and general direction. The chief internal auditor also has a secondary reporting relationship to the vice chancellor for budget and finance for day-to-day supervision, technical direction, and personal performance evaluation. In order to maintain objectivity, the Internal Audit Department will not undertake to develop and install procedures, prepare records, or engage in any other activity that it would normally review and appraise, and that could reasonably be construed to compromise its independence. Objectivity shall not be adversely affected by the recommendation of the standards of control to be applied in the development of systems and procedures under review.

***Where the Internal Audit Department is expected to have roles or responsibilities that fall outside of internal auditing, safeguards will be in place to limit impairments to independence or objectivity. The Internal Audit Department may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity, and provided individual objectivity is managed when assigning resources to an engagement.***

(B/R 3/14)

#### **Section 5. Audit Requests**

The chief internal auditor may determine during the year that an unscheduled audit should be performed. The chief internal auditor will inform the Audit Committee chair of special audits.

The chair of the Audit Committee may request an audit be performed based upon specific information provided to the chief internal auditor. If the chief internal auditor is in agreement that the audit should be performed, the audit will be added to the audit schedule. If the chief internal auditor is not in agreement that the audit should be performed, the Audit Committee chair may place the item on the next Audit Committee agenda for review and action by the Audit Committee.

Any member of the Board of Regents may request that the Audit Committee chair place a request for an audit on the Audit Committee agenda. The chief internal auditor will make a recommendation to the Audit Committee regarding the audit request.

The policy of the Audit Committee is to only perform special audits based on specific factual information and assessment of risk that would justify an audit.

(B/R 3/14)

#### **Section 6. Internal Audit Plan**

Annually, the chief internal auditor will submit to the chancellor and the Board an internal audit plan for review and approval. Any significant deviation from the approved plan will be communicated to senior management and the Audit Committee. ***Progress against the approved plan will be communicated to senior management and the Audit Committee at least every six months.***

(B/R 3/14)

#### **Section 7. Reporting and Monitoring**

A written report will be prepared and issued by the chief internal auditor following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results and institution responses will be communicated to the Audit Committee.

(B/R 3/14)

#### **Section 8. Periodic Assessment**

The NSHE chief internal auditor will communicate to the chancellor and the Audit Committee on the internal audit activity's quality assurance and improvement program, including results of external assessments conducted at least every five years.

(B/R 3/14)

#### **Section 9. Institution Audit Response Requirements**

1. Time Period for Response. In response to audit findings, institutions at times must adopt new institution policies or amend existing institution policies to address the issues identified in the audit. The adoption of new policies or amendment of existing policies in response to an audit finding must be completed within 150 calendar days after the audit and institutional response have been discussed at a Board of Regents Audit Committee meeting.
2. Expedited Procedure and Consultation with Faculty Senate. Each institution shall develop a procedure for the expedited adoption of new policy and for the amendment of existing policy to comply with the 150 calendar day requirement set forth above. The institution procedure must include an expedited process for consultation with the Faculty Senate.

(B/R 9/15)