

# Western Carolina University Internal Audit Charter

(Revised 12/13/2024)

## Introduction

The Internal Audit Charter (hereinafter “Charter”) for Western Carolina University (hereinafter “University”) documents the Office of Internal Audit (hereinafter “OIA”) Mandate, including the scope and types of services provided, organizational position and reporting relationships. The OIA is committed to adhering to the Institute of Internal Auditors (hereinafter “IIA”) Global Internal Audit Standards (hereinafter “Standards”).

## Definitions

**Assurance Services** – An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Internal auditors may provide limited or reasonable assurance, depending on the nature, timing, and extent of procedures performed.

**Advisory Services** – Services through which internal auditors provide advice to an organization’s stakeholders without providing assurance or taking on management responsibilities. The nature and scope of advisory services are subject to agreement with relevant stakeholders. “Advisory services” are also known as “consulting services.”

**Charter** – The Charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The Charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## Purpose

The purpose of internal auditing is to strengthen the University’s’ ability to create, protect, and sustain value by providing the University’s Board of Trustees’ (hereinafter “Board”) and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

1. The OIA function enhances the University’s:
  - Successful achievement of its objectives.
  - Governance, risk management, and control processes; and
  - Decision making and oversight.
2. The OIA function is most effective when:
  - Internal auditing is performed by competent professionals in conformance with the Standards, which are set in the public interest.
  - The internal audit function is independently positioned with direct accountability to the Board; and
  - Internal auditors are free from undue influence and committed to making objective assessments.

The OIA will adhere to the mandatory elements of the IIA’s International Professional Practices Framework, which are the Standards and Topical Requirements. The Chief Audit Officer (hereinafter “CAO”) will report periodically but at least annually to the Chancellor and the Finance and Audit Committee of the Board (hereinafter “Committee”) regarding the OIA’s

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conformance with the Standards, which will be assessed through a Quality Assurance and Improvement Program (hereinafter "QAIP").

### **Mandate and Authority**

The University is required to establish a program of internal auditing pursuant to G.S. 143-746. The University's OIA shall be accountable to the Board through the Committee and the Chancellor.

The Chancellor and the Committee through the Board, have delegated the necessary authority to the OIA to establish, maintain and assure that it has sufficient authority to fulfill its duties. This is a result of both the Chancellor and the Board, through the Committee approving this Charter and the annual risk-based audit plan (hereinafter "Plan"). The CAO will communicate performance relative to the Plan and other matters to the Chancellor and the Committee periodically, but not less than twice per year.

The Charter authorizes the OIA to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the University's personnel, as well as other specialized services from within or outside the University, as policy and laws permit, to facilitate completion of internal audit services.

### **Independence, Organizational Position, and Reporting Relationships**

The CAO will report to a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The CAO reports administratively (i.e., day-to-day operations) to the General Counsel and functionally to the Chancellor and the Committee. This positioning provides the organizational authority to bring matters directly to the Chancellor, and escalate matters to the Committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The CAO will confirm to the Committee, at least annually, the organizational independence of the internal audit function.

The CAO will disclose to the Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its Mandate.

Circumstances may justify a follow-up discussion between the CAO, Committee, and senior management on the Mandate or other aspects of the Charter. Such circumstances may include but are not limited to:

- A significant change in the Standards.
- Significant changes in the CAO, Committee, and/or senior management.
- Significant changes to the University's strategies, objectives, or risk profile.

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- New laws or regulations that may affect the nature and/or scope of audit services.

### To safeguard independence and objectivity,

- If the OIA provides assurance services where it had previously performed advisory services, the CAO must confirm that the nature of the advisory services does not impair objectivity.
- Temporary non-audit responsibilities of the CAO or assurance engagements over which the CAO has responsibility require an independent third party to provide assurance during the assignment period and for the subsequent 12 months upon completion of the work if such assurance activities are required regarding that area. The CAO must establish a plan to transition temporary responsibilities to management.
- If the OIA provides advisory services relating to activities for which they had previous responsibilities, potential impairments must be disclosed to the party requesting the services before accepting the engagement.

### Committee Oversight

To establish, maintain, and ensure that the OIA has sufficient authority to fulfill its duties, the Committee will:

- Recommend to the Board for approval of the Charter.
- Recommend to the Board for approval of the risk-based Plan.
- Receive communications from the CAO on the OIA's performance relative to its Plan and other matters.
- Receive communications from the Chancellor and advise as appropriate regarding the appointment, replacement, or removal of the CAO, OIA budget resources, and the CAO's evaluation and remuneration.
- Ensure the OIA has a QAIP, and that the results are reviewed annually.
- Ensure the CAO has unrestricted access to and communicates and interacts directly with the Committee, including in private meetings without senior management present, when necessary and in accordance with laws.
- Discuss with the CAO and Chancellor other topics that should be included in the Charter. A review of the Charter should be conducted annually.
- Make appropriate inquiries of management and the CAO to determine whether there are inappropriate scope or resource limitations.

### Ethics and Professionalism

The CAO will ensure that internal auditors:

- Conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the University's ethical expectations.

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### Objectivity

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

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively, in a manner that they believe ensures that no quality compromises are made and that they do not compromise quality, or subordinate their judgment on audit matters to others, either in fact or appearance.

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

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

The CAO will:

- Disclose impairments of independence or objectivity, in fact or appearance, to the Committee and other appropriate parties when they occur and/or at least annually.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### Managing the Internal Audit Function

The CAO has the responsibility to:

- Submit, at least annually, to senior management, and the Board, through the Committee, and to the Chancellor, a risk-based Plan for review and approval. The Plan should be developed with consideration of input of senior management, the Chancellor, and the Chair of the Committee.
- Communicate to senior management, through the Chancellor, and to the Committee any significant interim changes to the Plan.
- Review and adjust the Plan, as necessary, in response to changes in University's business, risks, operations, programs, systems, and controls.
- Communicate with senior management and the Committee if there are significant interim changes to the Plan.
- Ensure that each engagement on the Plan is properly 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

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communication of engagement results with applicable conclusions and recommendations to appropriate parties.

- Follow up on audit report findings and confirm the implementation of recommendations or action plans and communicate the results to management, the Chancellor, and the Committee.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Standards and fulfill the internal audit Mandate.
- Identify and consider trends and emerging issues that could impact the University and communicate to the Committee.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the OIA.
- Ensure adherence to the University's relevant policies and procedures unless such policies and procedures conflict with the Charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Chancellor and the Committee.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAO cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Committee.

### **Communication with the Committee and Senior Management**

The CAO will report at least annually to the Committee and Chancellor regarding:

- The OIA's Mandate.
- The Plan and its performance by the OIA.
- Significant revisions to the Plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the QAIP, including action plans to address any internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and matters requiring the attention of, or requested by the Committee.
- Results of assurance audit engagements, and other activities.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond the University's risk appetite.
- Opportunities for improving the efficiency of governance, risk management, and control processes, when identified during engagements.

### **Scope and Types of Internal Audit Activities**

The OIA activities primarily include assurance and advisory engagements. All planned internal audit activities are included in the annual risk-based Plan presented to the Committee and approved by the Board.

The scope of internal audit assurance services encompasses, but is not limited to, objective examinations of evidence to provide independent assessments to management, the Chancellor, and the Committee on the adequacy and effectiveness of governance, risk management, and control processes for the University.

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

Internal audit engagements and other activities may include evaluating whether:

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

The types of activities performed by the OIA include the following:

- Activities included on the approved risk-based Plan.
- Requests made by management, the Chancellor, or the Committee
- Requests made by the NC Council of Internal Auditing, through the Director of Internal Audit at the Office of State Budget and Management (OSBM), the UNC System Office, and the Office of the State Auditor (OSA)
- Investigating matters received through the University's Internal Audit Hotline, and other State Hotlines (UNC System Office, OSA, OSBM)
- Special projects, and participation on University committees and councils

### Reporting and Report Distribution

The CAO or a designee will prepare a written report following the conclusion of each assurance audit, as well as each follow-up conducted on issues included in assurance audit reports. Written reports may be prepared for advisory engagements, investigations, special projects, and other audit activities as deemed appropriate by the CAO, Chancellor, or Chair of the Committee. Written reports and memorandums will be distributed to relevant and appropriate members of University management. The Chancellor and Committee will be provided all assurance reports and related follow-up reports and memorandums. The Chancellor and/or Committee may request the CAO to provide additional reports, information or updates on other activities conducted by the OIA. Follow-up on issues reported for assurance audits will be conducted timely, and not later than six months after the original report issue date. Audit reports, including follow-up reports and memorandums, as well as other reports prepared by the OIA may be provided to the NC Council of Internal Auditing, OSBM, OSA, or the UNC System Office. Reports, memorandums and other OIA work products transmitted to parties outside the

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University will be redacted as deemed appropriate by the CAO or as advised by the University General Council.

Internal audit reports will include management's response regarding corrective action(s) taken or contemplated to be taken regarding the specific issues reported, including estimated implementation dates, and the responsible person. If management elects not to correct or effectively address a reported finding, its response should include a statement accepting the risk of not addressing the reported condition.

### **Quality Assurance and Improvement Program**

The CAO will develop, implement, and maintain a QAIP that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the CAO will communicate with the Committee and Chancellor about the internal audit function's QAIP, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the University, with at least one assessor holding an active Certified Internal Auditor credential.

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Approved by the Board on December 13, 2024.

Acknowledgments/Signatures

  
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Gary Malloy, Chief Audit Officer

12/13/24

Date

  
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Kelli Brown, Chancellor

12/13/2024

Date

  
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Casey Cooper, Chair of the Board of Trustees

12/13/2024

Date