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**Subject: Charter for the University’s Internal Audit Function**

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## **1. Purpose**

This policy outlines the policies and procedures covering University Internal Audit at Virginia Polytechnic Institute and State University and serves as a charter for the department.

## **2. Policy**

It is the policy of the Finance and Audit Committee of the Board of Visitors and the management of Virginia Polytechnic Institute and State University to support the maintenance of an internal audit function to assist in the effective discharge of their fiduciary responsibilities in assessing the effectiveness internal control environment.

The Finance and Audit Committee of the Board of Visitors and university management adopt the following definition of internal auditing (from the Institute of Internal Auditors' International Professional Practices Framework) as the purpose of the internal audit function: Internal auditing is an independent, objective assurance and advisory activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

### **2.1 Scope of Internal Audit Activities**

The internal audit function will provide assurance engagements encompassing reviews of all university operations and activities to appraise:

- The accuracy, reliability, and timeliness of significant financial, managerial, and operating information and the adequacy of the internal controls employed over the compilation and reporting of such information.
- Compliance with policies, procedures, standards, laws, and regulations.
- Whether risks are appropriately identified and managed.
- Measures taken to safeguard assets, including tests of existence and ownership.

- The adequacy, propriety, and cost-effectiveness of accounting, financial, and other controls throughout the university, as well as compliance therewith.
- Measures taken to foster continuous improvement in control processes.
- Whether university resources are being acquired, managed, and protected in an economical, efficient, and effective manner.
- The achievement of programs, plans, and objectives.

## 2.2 Organizational Structure

The Finance and Audit Committee of the Board of Visitors has the responsibility to oversee and evaluate the internal audit function of the university. Accordingly, the Director of Internal Audit reports functionally to the committee and also serves in a staff role to the committee. For day-to-day operations, the Director of Internal Audit reports administratively to the President.

## 2.3 Independence and Objectivity

Independence is essential to enable the internal audit function to accomplish its purpose. Accordingly, the Director of Internal Audit has direct and unrestricted access to the President and the Finance and Audit Committee of the Board of Visitors. The internal audit function shall be functionally independent of all university operations.

The Director of Internal Audit or members of the department must have an impartial, unbiased attitude and avoid any conflict of interest. Members of the internal audit function shall not be assigned to operating duties except for temporary assignments as requested by the President and the university's Chief Financial Officer and approved by the Finance and Audit Committee of the Board of Visitors. In addition, members of the internal audit function will not develop and install procedures, prepare records, make management decisions, or engage in any other activity which could be reasonably construed to compromise their independence. The Director of Internal Audit or members of the department shall not be assigned any additional supervisory or oversight responsibilities which could be reasonably construed to compromise their independence. Therefore, internal audit review and appraisal procedures do not in any way substitute for the responsibilities assigned to other persons in the organization.

## 2.4 Authority

The internal audit function has unrestricted access to all university departments, records, reports, activities, property, and personnel that they deem necessary to discharge their audit responsibilities. The internal audit function will exercise discretion in the review of records to assure the necessary confidentiality of matters that come to its attention.

## 2.5 Auditing Standards

The internal audit function will conduct its activities in accordance with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*. Generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and government auditing standards issued by the United States Government Accountability Office will be referenced as appropriate.

Members of the internal audit function have the responsibility to maintain high standards of conduct, professionalism, independence, and character to carry on proper and meaningful internal auditing within the university. In addition, the internal audit function's activities and conduct shall be consistent with the policies of the university.

## 2.6 Systems Planning and Development

The internal audit function will be consulted by management during the planning, development, and modification of major financial or operating systems and procedures (manual and automated) to ensure that:

- Reasonable and adequate internal controls exist.

- Systems or procedural documentation is complete and appropriate.
- An adequate audit trail exists.

The internal audit function's participation will be designed to: a) help assure that information assets are safeguarded and appropriate procedures are complied with, and b) aid management efficiency by avoiding costly systems or procedural changes at later dates.

## 2.7 Responsibilities of the Director of Internal Audit

The Director of Internal Audit has primary responsibility for the proper maintenance and management of the internal audit function to ensure that the audit work fulfills the purposes and responsibilities established in this policy statement.

The Director of Internal Audit is specifically charged with the following responsibilities:

- Coordinating all auditing activities to provide a central source of information for management and the Finance and Audit Committee of the Board of Visitors regarding all audit activities and to provide comprehensive, cost-effective audit coverage for the university.
- Going beyond accounting and financial records when necessary during audit activities to obtain a thorough understanding of the activities under audit.
- Establishing written policies and procedures for the internal audit function and directing its technical and administrative functions.
- Developing, submitting for approval, and executing comprehensive risk-based annual and long-range audit plans to carry out departmental responsibilities.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter, and provide information on the sufficiency of department resources.
- Documenting appropriately the results of all audits, reviews, and evaluations performed.
- Recommending improvements in controls designed to safeguard university resources and ensure compliance with government laws and regulations.
- Issuing an annual summary report of audit activities to the Finance and Audit Committee of the Board of Visitors.
- Appraising the adequacy of the action taken by management to correct significant reported internal control weaknesses and deficient conditions and reporting this information at least quarterly to the responsible Vice Presidents and the university's Chief Financial Officer, or their designees.
- Establishing and maintaining a quality assurance review program to evaluate the operations of the department, including periodic internal self-assessments and external peer reviews at least once every five years by qualified persons who are independent of the university. Results of such reviews will be presented to senior management and the Board of Visitors.
- Communicating directly with the Finance and Audit Committee of the Board of Visitors any matters considered to warrant its attention.
- Performing sufficient tests and examinations to determine and report to management, the Finance and Audit Committee of the Board of Visitors, and the appropriate authorities the extent of any fraud, waste, and abuse detected by audit or otherwise and to identify the weaknesses in control procedures that may have allowed the fraudulent activity to occur. The investigation of the specific event with the objective or recovery and/or prosecution is the responsibility of the appropriate police departments and Commonwealth's Attorney based on jurisdiction.

## **2.8 Audit Reports**

The internal audit function will issue audit reports and/or memorandums in all audit activities performed. The format and style of the report will be determined by the Director of Internal Audit, depending upon the nature and conditions surrounding the audit. Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. The formulation of overall opinions requires consideration of the engagement results and their significance. All reports on engagements scheduled in the annual audit plan will be issued to the members of the Finance and Audit Committee of the Board of Visitors, the President, appropriate senior management, and other appropriate personnel as deemed necessary by the Director of Internal Audit. In addition, reports approved at open meetings of the committee shall be made available to the public in accordance with state statutes. In certain circumstances, the Director of Internal Audit may decide, with the approval of the Chair of the Finance and Audit Committee of the Board of Visitors, to restrict the issuance of an audit report to certain members of management and/or the committee.

## **2.9 Responsibility for Corrective Action**

Senior management to whom the audited department, activity, or agency reports organizationally is responsible for the issuance of a written response to recommendations made or deficient conditions reported by the internal audit function. The responses should be submitted to the Director of Internal Audit for inclusion in the issued audit report. The committee will receive quarterly status updates of all recommendations in the process of being implemented.

## **2.10 Coordination with External Auditing Agencies**

The Director of Internal Audit will coordinate the department's audit efforts with those of the Auditor of Public Accounts or other external auditing agencies by participating in the planning and definition of the scope of proposed audits so the work of all auditing groups is complementary, and their combined efforts provide comprehensive, cost-effective audit coverage for the university. Duplication of work will be avoided as much as possible.

## **2.11 Special Projects**

The Director of Internal Audit is empowered to conduct special audit projects, reviews, advisory services, or investigations at the request of the President, Vice Presidents or their designee, and the Finance and Audit Committee of the Board of Visitors to assist management in meeting its objectives, promoting economy and efficiency in the administration of, or preventing and detecting fraud, waste, and abuse in its programs and operations, examples of which may include facilitation, training, and advisory services.

## **3. Procedures**

Principal guidance and direction on how the internal audit function accomplishes its mission and responsibilities is provided to the audit staff through the Virginia Tech Internal Audit Manual (Manual). The Manual is designed to promote adherence to the International Professional Practice Framework developed by the Institute of Internal Auditors. The Manual also provides a resource to external parties such as the Finance and Audit Committee of the Board of Visitors, senior management, external auditors, and quality assurance parties.

## **4. Definitions**

### **Abuse**

Excessive or improper use of a thing or policy, or employment of something in a manner contrary to the natural or legal rules for its use. Intentional destruction, diversion, manipulation, misapplication, mistreatment, or misuse of Commonwealth resources. Extravagant or excessive use as to abuse one's position or authority. Abuse can occur in financial or nonfinancial settings.

### **Add Value**

The internal audit function adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

### **Advisory Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

### **Assurance**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

### **Charter**

The internal audit charter is a formal document that defines the internal audit function's purpose, authority, and responsibility. The internal audit charter establishes the internal audit function'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.

### **Code of Ethics**

The *Code of Ethics* of The Institute of Internal Auditors are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

### **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

### **Conflict of Interest**

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

### **Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control (e.g. integrity and ethical values; management's philosophy and operating style; organizational structure; and the assignment of authority and responsibility).

### **Control Processes**

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

### **Director of Internal Audit**

The individual that serves as the chief audit executive and is responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the *Code of Ethics*, and the *Standards*.

### **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### **Fraud**

The intentional deception perpetrated by an individual or individuals, or an organization or organizations, either internal or external to the university, which could result in a tangible or intangible benefit to themselves, others, or the Commonwealth or could cause detriment to others or the Commonwealth. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive.

### **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. The governance process includes: promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; communicating risk and control information to appropriate areas of the organization; and coordinating the activities of and communicating information among the board, external and internal auditors, and management.

### **Independence**

The freedom from conditions that threaten the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

### **Internal Audit Function**

The department, division, team of advisors, or other practitioner(s) that provides independent, objective assurance and advisory services designed to add value and improve an organization's operations.

### **International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by the Institute of Internal Auditors. Authoritative guidance is comprised of two categories – (1) mandatory and (2) strongly recommended.

### **Objectivity**

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

### **Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

### **Risk Management**

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

### Scope

A statement that specifies the focus, extent, and boundary of a particular audit. The scope can be specified by defining the physical location of the audit, the organizational units that will be examined, the processes and activities that will be included, and the time period that will be covered.

### Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

### Standards

A professional pronouncement that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

### Waste

The intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of Commonwealth resources to the detriment or potential detriment of the Commonwealth. Waste also includes incurring unnecessary costs due to inefficient or ineffective practices, systems, or controls.

## 5. References

Section 2.1-155.3 of the *Code of Virginia*, enacted in 1984.

*State Fraud, Waste, and Abuse Hotline Policies and Procedures Manual*, Office of the State Inspector General, Commonwealth of Virginia, 2014 edition.

*International Standards for the Professional Practice of Internal Auditing (Standards)*, The Institute of Internal Auditors, issued in 2008, revised in 2012.

*Code of Ethics*, The Institute of Internal Auditors.

## 6. Approval and Revisions

- Revision 0  
Approved February 9, 1989, by the Director of Internal Audit, David C. Goodyear.
- Revision 1  
Annual review. Section 2.8 - changed so that reports "approved" by the Finance and Audit Committee of the Board of Visitors shall be available to the public.  
Approved March 29, 1990, by the Director of Internal Audit, David C. Goodyear.
- Revision 2  
Changes were made to eliminate minor discrepancies between the audit manual and the policy statement as presented to the Board of Visitors.  
  
Approved November 3, 1995, by the Director of Internal Audit, David C. Goodyear.
- Annual review, November 5, 1998, by Office of the Executive Vice President. No revisions.
- Revision 3

Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors. Policy serves as a charter for the Internal Audit Department.

Approved March 29, 2004 by the Executive Vice President and Chief Operating Officer, Minnis E. Ridenour.

Approved March 29, 2004 by the Finance and Audit Committee of the Board of Visitors.

- Revision 4

Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors, in conjunction with the Internal Audit Department's quality assurance review.

Approved March 14, 2005 by the Executive Vice President and Chief Operating Officer, James A. Hyatt.

Approved March 14, 2005 by the Finance and Audit Committee of the Board of Visitors.

- Revision 5

April 1, 2008: Updates to position titles and/or responsibilities due to university reorganization.

- Revision 6

Policy title changed from "Internal Audit Department" to "Internal Audit Charter."

Section 2.2 revised to reflect change in Director of Internal Audit reporting relationship.

Sections 2.5 and 2.7 revised to clarify the role of Internal Audit and the standards under which it conducts its activities.

Section 2.9 revised to clarify the process for senior management areas submitting corrective action plans.

Approved November 7, 2011 by the university President, Charles W. Steger.

Approved November 7, 2011 by the Finance and Audit Committee of the Board of Visitors.

- Revision 7

Full technical review correcting grammatical, punctuation, word usage, sentence structure, and minor content and/or format inconsistencies. The charter was also revised to incorporate the concept of objectivity, and to include applicable procedures and definitions.

Policy title changed from "Internal Audit Charter" to "Charter for the University's Internal Audit Function."

Approved November 9, 2015 by the Finance and Audit Committee of the Board of Visitors and President, Timothy D. Sands.