

4.01.05.00 Internal Audit



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Policy/Guideline Area

Business and Finance Policies

Applicable Divisions

TCATs, Community Colleges, System Office, Board Members

Purpose

This policy addresses staffing, responsibilities of the internal audit function, audit planning, and reporting on internal audit activities.

In addition to this policy, the Office of System-wide Internal Audit maintains an audit manual. The purpose of the audit manual is to provide consistency, continuity, and standards of acceptable performance.

Definitions

- Definitions are provided in the body of the policy.

Policy/Guideline

I. General Statement

- A. The internal audit function contributes to the improvement of the institution's operations by providing objective and relevant assurance regarding risk management, control, and governance processes to management and the Board.
- B. Management is responsible for evaluating the institution's risks and establishing and maintaining adequate controls and processes.

- C. To provide relevant information, the internal audit activity will consider the goals of the institution, management's risk assessments and other input from management in determining its risk-based audit activities.

II. Internal Audit Standards

- A. Each internal audit function shall adhere to The Institute of Internal Auditors' (IIA) *Global Internal Audit Standards* (T.C.A. § 4-3-304(9)). The Institute of Internal Auditors, International Professional Practices Framework (IPPF), includes the *Global Internal Audit Standards*, the *Topical Requirements*, and the *Global Guidance*. It includes the following definition of internal auditing:
 - 1. Internal Auditing is an independent, objective assurance and advisory service designed to add value to 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 governance, risk management, and control processes.
- B. Risk is the positive or negative effect of an uncertainty on an institution's goals and objectives.
 - 1. Risk is measured in terms of the impact an event may have and the likelihood that the event will occur.
 - 2. To optimize the achievement of the institution's goals and objectives, the Board and management act to minimize the related risks by implementing reasonable procedures to control and monitor the risks.
- C. Governance processes are 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.
 - 1. Examples of such processes include:
 - a. The organizational structure within an institution or a department.

- b. Policies, guidelines, and procedures instituted by the Board or management to direct and control a particular activity such as maintenance fees or hiring practices.
 - c. Preparation and review procedures for preparing reports such as annual financial statements or federal grant or financial aid reports.
- D. To ensure compliance with the IIA Standards, internal audit offices must implement and maintain a quality assurance and improvement program that incorporates both internal and external review activities.
 - 1. Internal reviews include both ongoing and periodic review activities.
 - 2. External reviews must be performed at least every five years by a qualified, independent reviewer.
 - 3. Results of quality assurance reviews will be communicated to the Audit Committee and management.

III. Internal Audit Personnel

- A. Community Colleges shall employ at least one full-time internal auditor.
- B. The titles of internal audit staff shall be consistent within the overall institutional structure.
- C. Internal Audit Staff
 - 1. Internal audit staff must possess the professional credentials, knowledge, skills, and other competencies needed to perform their individual responsibilities.
 - 2. The internal audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.
 - 3. The System-wide Chief Audit Executive must be licensed as a Certified Public Accountant or a Certified Internal Auditor, maintain an active license and annually complete sufficient, relevant continuing professional

education to satisfy the requirements for the professional certification held.

4. The campus Internal Audit Director must be licensed as a Certified Public Accountant, Certified Internal Auditor, and/or a Certified Information Systems Auditor and maintain an active license.
5. All system auditors must complete sufficient, relevant continuing professional education to satisfy the requirements for the professional certification held and to maintain and continually develop their competencies to improve the effectiveness and quality of internal audit services. Continuing Education must include a minimum of two hours of professional ethics training every two years.
6. Internal Audit Directors should communicate concerns to management and the System-wide Chief Audit Executive regarding the lack of sufficient resources to complete the objectives of an engagement or the audit plan.
7. Such resources may include the need for additional personnel or personnel with specialized knowledge, such as those with knowledge of fraud, information technology or other technical areas.

D. Appointments

1. The appointment of campus Internal Audit Directors as recommended by the President is subject to approval by the Chancellor or designee (T.C.A. §.49-14-106).
2. The appointment of the System-wide Chief Audit Executive is subject to review and approval by the Audit Committee of the Board of Regents (T.C.A. §.49-14-102).

E. Compensation

1. Compensation of the campus internal auditors is subject to review by the Audit Committee of the Board of Regents.

2. Compensation of the System-wide Chief Audit Executive and the system office internal auditors is subject to review and approval by the Audit Committee of the Board of Regents.

F. Termination or Change of Status

1. The termination or change of status of campus Internal Auditor Directors (T.C.A. § 49-14-106) requires the prior approval of the Chancellor and the Audit Committee of the Board of Regents.
2. The System-wide Chief Audit Executive (T.C.A. §.49-14-102) may be removed only for cause, which requires a majority vote of the Board of Regents.

IV. Internal Audit Role and Scope

A. Reporting Structure

1. In accordance with T.C.A. § 49-14-102, the System-wide Chief Audit Executive reports directly to the Audit Committee and the Tennessee Board of Regents.
2. Campus internal auditors report administratively to the respective campus President with audit reporting responsibility to the Audit Committee and the Board through the System-wide Chief Audit Executive.
3. This reporting structure assures the independence of the internal audit function.

- B. The TBR, Office of System-wide Internal Audit, hosts periodic meetings and communicates with the audit directors on matters of mutual interest.

- C. The Office of System-wide Internal Audit maintains an internal audit manual to guide the internal audit activity at each institution in a consistent and professional manner.

- D. The internal auditors' responsibilities include:

1. Working with management to assess institutional risks and developing an audit plan that considers the results of the risk assessment.
 2. Evaluating institutional controls to determine their effectiveness and efficiency.
 3. Coordinating work with external auditors, program reviewers, and consultants.
 4. Determining the level of compliance with internal policies and procedures, state and federal laws, and government regulations.
 5. Testing the timeliness, reliability, and usefulness of institutional records and reports.
 6. Recommending improvements to controls, operations, and risk mitigation resolutions.
 7. Assisting the institution with its strategic planning process to include a complete cycle of review of goals and values.
 8. Evaluating program performance.
 9. Performing advisory services and special requests as directed by the Audit Committee, the Chancellor, or the institution's President.
- E. The scope of internal auditing extends to all aspects of institutional operations and beyond fiscal boundaries. The internal auditor shall have access to all records, personnel, and physical properties relative to the performance of the auditor's duties and responsibilities.
- F. The scope of a particular internal audit activity may be as broad or as restricted as required to meet management needs.
- G. Objectivity is essential to the internal audit function. Therefore, internal audit personnel should not be involved in the development and installation of systems and procedures, preparation of records, or any other activities that the internal audit staff may review or appraise. However, internal audit personnel

may be consulted on the adequacy of controls incorporated into new systems and procedures or on revisions to existing systems.

- H. Management is responsible for identifying, evaluating, and responding to potential risks that may impact the achievement of the institution's objectives. Auditors continually evaluate risk management, internal control, and governance processes. To facilitate these responsibilities, Internal Audit will receive notices or copies of cash shortages, physical property losses, employee misconduct, external audit reviews, program reviews, and fiscally-related consulting reports..

V. Audit Plans and Activity Reports

- A. Internal Audit shall develop an annual audit plan using an approved risk assessment methodology.
- B. At the beginning of each fiscal year, after consultation with the Chancellor or President and other institution management, Internal Audit will prepare an annual audit plan. The audit plan must be flexible to respond to immediate issues and will be revised for such changes during the year.
- C. Audit plans and revisions will be reviewed by the System-wide Chief Audit Executive and approved by the Audit Committee.
- D. At the end of each fiscal year, Internal Audit will prepare an annual activity report of all significant audit services performed.
- E. Annual activity reports and approved audit plans will be provided to the Comptroller's Office, Division of State Audit.

VI. Audit Engagements

- A. Audit engagements will be planned to provide relevant results to management and the Audit Committee regarding the effectiveness and efficiency of processes and controls over operations. To ensure management's expectations

are met, auditors will communicate with management regarding the objectives and scope of the engagement.

- B. Working papers that are created, obtained, or compiled by an internal audit staff are confidential and are not an open record (T.C.A. § 4-34-304(9)).

VII. Communicating Audit Results

- A. A written report that documents the objectives, scope, conclusions, and recommendations of the audit will be prepared for audit engagements providing assurance to the Board and management. Management will include corrective action for each reported finding.
- B. Internal Audit will follow-up on findings or recommendations included in internal audit reports, investigation reports, and State Audit reports. The status of Internal Audit recommendations and/or findings will be monitored through the recommendation logs. For recommendations not corrected at the time of Internal Audit follow-up or the corrective action due date, management will be asked to provide a revised corrective action implementation date. A written internal audit follow-up report is required for all State Audit reports that include findings, regardless of the current status of audit findings. The Chancellor or institution's President, along with the Audit Committee, will be notified at the conclusion of a follow-up review if management has not corrected the reported finding or implemented the recommendation.
- C. A written report that documents the objectives, scope, conclusions, and recommendations will be prepared for investigations resulting from allegations or identification of fraud, waste, or abuse. As appropriate to the circumstances, management will include corrective action for each reported finding. In a case where allegations are not substantiated by the review and there are no other operational concerns to report to management regarding the review, the case may be closed by writing a memo to the working paper file documenting the reasons for closing the case.

- D. Reports on special studies, advisory services, and other non-routine items should be prepared as appropriate, given the nature of the assignment.
- E. All internal audit reports will be signed by the institution's Internal Audit Director and transmitted directly to the Chancellor or President, as applicable, in a timely manner.
- F. The Internal Audit Director will transmit an electronic copy of the internal audit report to the System-wide Chief Audit Executive.
- G. The System-wide Chief Audit Executive will present significant results of internal audit reports to the Audit Committee quarterly.
- H. The System-wide Chief Audit Executive will provide a copy of each report to the Comptroller's Office, Division of State Audit.

VIII. Exceptions

- A. Any exceptions to the policy established herein shall be subject to the approval of the System-wide Chief Audit Executive and the Audit Committee.

Sources

Authority

T.C.A. § 49-8-203; All other State statutes referenced in this policy; Institute of Internal Auditors

History

June 3, 1981, TBR Presidents' Meeting; July 1, 1984; May 20, 1986; February 14, 1989; November 14, 1989; August 13, 2002; February 10, 2004; November 18, 2004; Changed from Guideline B-050 at TBR Board Meeting, June 29, 2007; TBR Board Meeting, December 6, 2007; TBR Board Meeting, December 8, 2011; TBR Board Meeting March 27, 2015; TBR Board Meeting September 29, 2018; TBR Board Meeting December 12, 2023; Board approved revision June 12, 2026 (effective July 1, 2026).

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