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Office of the President
February 18, 2021

Members, Audit and Compliance Committee:

APPROVE REVISIONS TO UNIVERSITY OF KENTUCKY INTERNAL AUDIT CHARTER

Recommendation: that the Audit and Compliance Committee (ACC) approve revisions to the UK Internal Audit (UKIA) Charter effective February 18, 2021.

Background: The Audit Subcommittee approved the initial Internal Audit Charter on May 10, 2005. Since that time, the Audit Subcommittee, or Audit and Compliance Committee, has approved revisions to the UKIA Charter as follows:

- March 27, 2012, as a result of a recommendation set forth in the Quality Assessment Review of the Office of Internal Audit dated October 2009.
- June 10, 2014, in response to the Audit and Compliance Subcommittee Charter approval on September 10, 2013, revisions were made to align with the Governing Regulation (GR) II revision.
- September 9, 2016, in response to the Audit and Compliance Subcommittee transitioning from its subcommittee status of the Finance Committee to a regular standing committee of the Board of Trustees.
- February 22, 2019, to reflect UKIA's transition from an annual work plan to a risk-based, dynamic work plan and provide greater clarity regarding Internal Audit's mission and objectives, as well as its responsibilities and the standards by which it operates.

The proposed revisions take into account UKIA's expanded accountability role across the university and include updated audit report distribution procedures and the addition of periodic self-assessments to enhance UKIA's Quality Assurance and Improvement Program.

Action taken: Approved Disapproved Other _____

University of Kentucky Internal Audit Charter

Purpose

University of Kentucky Internal Audit (UKIA) is an independent and objective assurance and consulting function which assists units of the University of Kentucky in the effective performance of their operational and fiduciary responsibilities with respect to proper internal controls. The consulting services provided by UKIA fosters transparency and accountability across the university. UKIA aids in the achievement of management's objectives by reviewing areas of potential vulnerability and furnishing unit management and executive leadership (President's Cabinet) with expert analyses, information and recommendations concerning the activities examined. UKIA has no authority over, nor direct responsibility for, any of the activities reviewed. The services performed by UKIA provide advisory and assurance *only*, and in no way relieve these units of their responsibilities to achieve their objectives in compliance with federal, state and university regulations, policies and procedures.

Standards

UKIA governs its activity in accordance with The Institute of Internal Auditors' (IIA) mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing and Core Principles for the Professional Practice of Internal Auditing. In addition, the Internal Audit function adheres to the University of Kentucky Ethical Principles and Code of Conduct and other internal professional policies. UKIA staff members exude professionalism, knowledge, analytical, organizational and communication skills to carry out the mission of the university. Each member of the department shall consistently demonstrate high standards of ethical conduct, as well as appropriate judgment and discretion.

Authority

UKIA provides assurance and advisory services to all entities and affiliates of the University of Kentucky. For engagements related to entities outside of the university's jurisdiction, UKIA shall communicate in writing the objective, scope, responsibilities and other pertinent expectations. UKIA's activity is independent and free from interference in determining the scope of audits, performing audit work and communicating results. This independence is ensured through UKIA's reporting relationship. The chief accountability officer and audit executive reports directly to the president and the Audit and Compliance Committee of the Board of Trustees. In carrying out these responsibilities, UKIA personnel have unrestricted access to all data, records, files, property and personnel of the university. Per University Governing Regulation XIV, Ethical Principles and Code of Conduct, university employees are required to assist UKIA in fulfilling its roles and responsibilities. These responsibilities are in conformance with International Professional Practices Framework implementation guidelines.

Responsibilities of Internal Audit

1. Internal Audit Charter: At least annually, UKIA will review this charter and the charter for the ACC with the ACC. At that time, UKIA will discuss proposed revisions that may be appropriate based on changes to industry standards, the university and/or UKIA responsibilities. All such revisions to either charter will be approved by the ACC.
2. Audit Project Prioritization: At least annually, UKIA will submit its risk-based, dynamic Work Prioritization Plan to the ACC for review and approval; any significant interim changes will also be submitted.
3. Progress Reports: UKIA will provide a progress report summarizing audit activity to both university executive management and members of the ACC during ACC meetings and other times as requested. Moreover, UKIA will communicate to the ACC how these completed reports demonstrate progress against the annual dynamic Work Prioritization Plan and the associated risk assessment. In addition, UKIA will provide regular updates to the ACC regarding the independence of the internal audit activity, resource requirements, how UKIA conforms with the IIA Code of Ethics and the IIA Standards for the Professional Practice of Internal Auditing and how any significant conformance issues will be addressed should they arise. UKIA will also provide updates on the effectiveness of the university's system of internal controls and compliance with applicable laws, regulations and university policies. Any response to risk that the chief accountability officer and audit executive deems unacceptable to the university will also be communicated.
4. Final Audit Reports: UKIA will devise a unique distribution list for final audit reports to ensure appropriate communication of results. The distribution list of final audit reports shall always include executive leadership and stakeholders. The members of the ACC and independent external auditors shall receive all final reports, with the exception of inquiries that are not substantiated and elevated to investigation status.
5. Quality Assurance: UKIA will undertake a Quality Assessment Review by qualified external consultants every five years, or as recommended by the Institute of Internal Auditors, to be in compliance with the International Standards of the Professional Practice of Internal Auditing and the core principles of the International Professional Practices Framework (IPPF). Additionally, UKIA will enhance its Quality Assurance and Improvement Program with periodic self-assessments to evaluate the performance of internal audit activity and conformance with the standards noted above to be conducted midway between each external assessment. The results of these reviews will be communicated to the ACC at the first meeting following the receipt of the results. UKIA will also report on metrics used to gauge efficiency and effectiveness as a regular means of monitoring quality.
6. Collaborations: UKIA will work collaboratively with the university's independent external auditors to ensure that efforts are not duplicated, and resources are leveraged. Additional relationships and collaborations will be formed with other university functions for improved university operation and to promote the achievement of management objectives.

7. Accountability: UKIA shall work to enhance operational efficiency and effectiveness across the university by evaluating regulatory compliance and monitoring performance against established metrics to mitigate risk and ensure data integrity. This includes promoting transparency in external reporting regarding these standards and evaluating associated information workflows.

Dr. Eli Capilouto
University President

Claude A. "Skip" Berry
Chair, Audit and Compliance Committee