

04.500 Audit and Compliance

04.501 Internal Audit.

1. Objective. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the System Administration's and each Institution's operations. It assists the System Administration and each Institution to accomplish their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes.
  - a. 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. Examples may include financial, performance, compliance, system security, and due diligence engagements.
  - b. Consulting 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. Examples include counsel, advice, facilitation, and training.
  - c. Risk Management. The internal audit activity shall evaluate the effectiveness and contribute to the improvement of risk management systems processes.
  - d. Control. The internal audit activity shall assist the System Administration and each Institution in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
  - e. Governance. The internal audit activity shall assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- i. promoting appropriate ethics and values within the System Administration and the Institutions;
  - ii. ensuring effective organizational performance, management, and accountability;
  - iii. communicating risk and control information to appropriate areas of the System Administration and the Institutions; and
  - iv. coordinating the activities of and communicating information among the Board, external and internal auditors, and management.
- f. Scope of Evaluation. Risks and controls relating to the System Administration and each Institution's governance, operations, and information systems shall be evaluated for:
- i. reliability and integrity of financial and operational information;
  - ii. effectiveness and efficiency of operations;
  - iii. safeguarding of assets; and
  - iv. compliance with laws, regulations, and contracts.

The Internal Audit activity shall evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2. Appointment of the Chief Internal Auditor. The Chief Internal Auditor shall be appointed by the Board on the recommendation of the Chancellor and shall serve at the pleasure of the Board.
3. Reporting. The Chief Internal Auditor reports to the Board through the Audit Committee and shall have access to the Chancellor.

4. Duties and Responsibilities of the Chief Internal Auditor. The Chief Internal Auditor shall:
  - a. advise the Board and the Chancellor in formulating policies and procedures to guide audit policies and services for the System Administration and the Institutions, including:
    - i. periodically reviewing the internal audit charter and presenting it to senior management and the Board for approval;
    - ii. discussing the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the Board;
    - iii. confirming to the Board, at least annually, the organizational independence of the internal audit activity; and
    - iv. discussing with the Board the external assessment needs and qualifications and independence of external reviewers or review team and communicating the results of the quality assurance and improvement program.
  - b. develop a consolidated annual internal audit plan based on a documented System-wide risk assessment (input of senior management and the board shall be considered in this process) and coordinate the plan's implementation;
  - c. coordinate the reporting of all audit activities;
  - d. direct audits of the System and the System Administration;
  - e. direct and evaluate the performance of individuals holding positions that directly report to the Chief Internal Auditor;
  - f. promote diversity within the System and support existing System programs designed to create a welcoming environment for everyone;

- g. provide leadership and oversight of institutional effectiveness efforts, including the use of evaluation and linking results to planning; and
  - h. perform other duties as assigned by the Board and the Chancellor.
- 5. Independence. In carrying out their duties and responsibilities, the Chief Internal Auditor and the Internal Audit staff shall have full, free, and unrestricted access to all System Administration and Institution activities, records, personnel, and physical properties. Internal Audit shall not be given any responsibility that would interfere with its ability to perform independent reviews of all aspects of System Administration and/or Institution operations.
- 6. Internal Audit Responsibilities. The Chief Internal Auditor shall implement a program of internal auditing that includes:
  - a. using risk assessment techniques to develop a flexible annual audit plan that identifies the individual audits to be conducted during the year;
  - b. performing the annual audit plan, as approved, including any special tasks or projects requested by management and the Board Audit Committee when appropriate;
  - c. periodically reviewing major systems and controls, including: (i) accounting systems and controls, (ii) administrative systems and controls, and (iii) information technology systems and controls;
  - d. reporting each quarter to the Board Audit Committee on (i) whether appropriate action has been taken on significant audit issues, findings, and recommendations, (ii) audits in progress and those completed during the quarter, and (iii) deviations from the audit plan;
  - e. reporting audit results to members of management who should be informed or who should take corrective action;
  - f. performing follow-up to determine whether corrective action was taken and is achieving the desired results; and

g. performing quality assurance reviews in accordance with professional standards and periodically taking part in a comprehensive external peer review.

7. Standards. Internal Audit shall perform its responsibilities in accordance with the Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code. Internal Audit recognizes the Institute of Internal Auditors (IIA) as its professional and authoritative source. Internal Audit shall conform to the IIA: Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* contained in the International Professional Practices Framework as promulgated by the IIA. Additionally, Internal Audit shall conform to generally accepted governmental auditing standards (GAGAS).

04.502 Compliance. The System Administration and each Institution shall develop and implement a compliance program that supports activities intended to assist the Institution in complying with federal and state laws and regulations.

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