

UNIVERSITY OF WISCONSIN SYSTEM OFFICE OF INTERNAL AUDIT CHARTER

PURPOSE AND MISSION

The purpose of the University of Wisconsin System's Office of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the University of Wisconsin System's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Office of Internal Audit helps the University of Wisconsin System accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The Office of Internal Audit will carry out its responsibilities in accordance with University of Wisconsin System policies, and state and federal law. Additionally, the Office of Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' (IIA's) International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the Audit Committee of the Board of Regents regarding the Office of Internal Audit's conformance to the Code of Ethics and the *Standards*.

AUTHORITY

The chief audit executive will report to the Board of Regents through the Audit Committee directly and to the UW System President. The UW System President and the chair of the Audit Committee have joint responsibility for the hiring, performance evaluation, and compensation of the chief audit executive.

To establish, maintain, and assure that the University of Wisconsin System's Office of Internal Audit has sufficient authority to fulfill its duties, the Audit Committee of the Board of Regents will:

- Approve the Office of Internal Audit's charter.
- Approve the risk-based internal audit plan.
- Approve the Office of Internal Audit's budget and resource plan.
- Receive communications from the chief audit executive on the Office of Internal Audit's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the chief audit executive to determine whether there is appropriate scope or resource limitations.

The chief audit executive will have unrestricted access to, and communicate and interact directly with, the Audit Committee of the Board of Regents, including in private meetings without management present.

The Audit Committee of the Board of Regents authorizes the Office of Internal Audit to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

- Audit the accounts of the University of Wisconsin System organization, as defined in note 1 of the System's annual financial statements.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain the necessary assistance of personnel in areas of the University of Wisconsin System where engagements are being performed, as well as other specialized services from within or outside the University of Wisconsin System, in order to complete the engagement.

INDEPENDENCE AND OBJECTIVITY

The chief audit executive will ensure that the Office of Internal Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that the office's independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

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

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

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

Internal audit reviews do not, in any way, substitute for or relieve other University of Wisconsin System personnel from their assigned responsibilities.

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief audit executive will confirm to the Audit Committee of the Board of Regents, at least annually, the organizational independence of the Office of Internal Audit.

The chief audit executive will disclose to the Audit Committee of the Board of Regents any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

SCOPE OF INTERNAL AUDIT ACTIVITIES

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee of the Board of Regents, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the University of Wisconsin System. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the University of Wisconsin System's strategic objectives are appropriately identified and managed.
- Interaction with various governance groups occurs as needed.
- Financial, managerial, and operating information is accurate, reliable, and timely.
- The actions of the University of Wisconsin System's officers, regents, employees, and contractors are in compliance with University policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the University of Wisconsin System.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief audit executive will report periodically to senior management and the Audit Committee of the Board of Regents regarding:

- The Office of Internal Audit's purpose, authority, and responsibility.
- The Office of Internal Audit's plan and performance relative to its plan.
- The Office of Internal Audit's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee of the Board of Regents.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the University of Wisconsin System.

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Office of Internal Audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the Office of Internal Audit does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

RESPONSIBILITY

The chief audit executive has the responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plan to senior management and the Audit Committee of the Board of Regents for review and approval.
- Implement the audit plan, as approved by the Audit Committee of the Board of Regents, including as appropriate any special tasks or projects requested by management and the Board of Regents.
- Communicate to senior management and the Audit Committee of the Board of Regents the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the University of Wisconsin System's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Audit Committee of the Board of Regents any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is 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 communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Issue periodic reports to the Audit Committee of the Board of Regents summarizing the results of audit activities.
- Follow up on engagement comments and corrective actions, and report periodically to senior management and the Audit Committee of the Board of Regents any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Maintain a professional audit staff that collectively possesses or obtains the knowledge, skills, experience, professional certifications, and other competencies needed to meet the requirements of this Charter.
- Ensure trends and emerging issues that could impact the University of Wisconsin System are considered and communicated to senior management and the Audit Committee of the Board of Regents as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Conduct research and analysis in operational areas of interest to the Board of Regents.
- Provide consulting services to University of Wisconsin System management by conducting targeted studies to assist management in meeting its objectives, the nature of which is agreed to with management, and for which the Office of Internal Audit assumes no management responsibility.
- Consider the scope of work of the external auditors and regulators as appropriate for the purpose of providing optimal audit coverage to the institution.
- Assist in the investigation of suspected fraudulent activities within the University of Wisconsin System and notify management and the Audit Committee of the Board of Regents of the results, as appropriate.
- Establish and ensure adherence to policies and procedures designed to guide the Office of Internal Audit.
- Ensure adherence to the University of Wisconsin System's relevant policies and procedures, unless such policies and procedures conflict with this Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee of the Board of Regents.
- Review and update the Office of Internal Audit Charter at least once every three years, or more often if changes are warranted, and provide updated Charters to senior management and the Audit

Committee of the Board of Regents for review and approval.

- Ensure conformance of the Office of Internal Audit with the *Standards*, with the following qualifications:
 - If the Office of Internal Audit is prohibited by law or regulation from conformance with certain parts of the *Standards*, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, the chief audit executive will ensure that the Office of Internal Audit conforms with the *Standards*, even if the Office of Internal Audit also conforms with the more restrictive requirements of other authoritative bodies.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Office of Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the Office of Internal Audit. The program will include an evaluation of the Office of Internal Audit's conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Office of Internal Audit and identify opportunities for improvement.

The chief audit executive will communicate to senior management and the Audit Committee of the Board of Regents on the Office of Internal Audit's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the University of Wisconsin System.

The Office of Internal Audit's engagements are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, as supported by the results of the quality assurance and improvement program.