

**Policy 1601**  
**Auditing Program/Charter**

**Date of Current Revision: February 2023**

**Primary Responsible Officer: Director, Audit and Management Services**

**1. PURPOSE**

Audit and Management Services (AMS) assists the JMU Board of Visitors and university management in the discharge of their oversight, management, and operating responsibilities by providing internal auditing services to the university community. The purpose of AMS is to provide independent, objective assurance and consulting services designed to add value and improve JMU's operations. Internal audit's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. This policy defines the charter of AM.

**2. AUTHORITY**

The Board of Visitors has been authorized by the Commonwealth of Virginia to govern James Madison University. See Code of Virginia § 23.1-1600; § 23.1-1301. The board has delegated the authority to manage the university to the president.

**3. DEFINITIONS**

**Chief Audit Executive (CAE)**

The highest-level executive with overall responsibility for internal audit. The working title of the CAE is Director, Audit and Management Services.

**Institute of Internal Auditors (IIA)**

The professional organization that establishes International Standards for the Professional Practice of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing and the Code of Ethics. The IIA Standards for the Professional Practice of Internal Auditing along with the Core Principles, Definition of Internal Auditing and Code of Ethics provide a framework for performing internal auditing. These mandatory standards establish basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of internal audit.

**Internal Auditing**

Internal auditing is an independent, objective assurance, and consulting 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.

**4. APPLICABILITY**

This policy applies to all university departments, activities and personnel.

## **5. POLICY**

AMS was established by the Board of Visitors and the president. It is the policy of the university to support AMS and its program of internal auditing. The responsibilities of AMS are defined by this charter and guidance from the Audit, Risk, and Compliance (ARC) Committee of the Board of Visitors (ARC Committee) as part of its oversight role. The program will govern itself by adherence to the mandatory elements of IIA's International Professional Practices Framework (IPPF), including the International Standards for the Professional Practice of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the Definition of Internal Auditing.

## **6. PROCEDURES**

### **6.1 Independence and Objectivity**

AMS will be independent, in organization and in function, from all university divisions. The Director of AMS reports directly to the ARC Committee and administratively to the president. To establish, maintain, and assure that AMS has sufficient authority to fulfill its duties, the ARC Committee will:

- Approve the internal audit charter (this policy)
- Approve the risk-based internal audit plan
- Approve the budget for AMS
- Have input on the remuneration of the CAE
- Receive communications from the CAE on performance relative to the audit plan and other matters
- Approve decisions regarding the appointment and removal of the CAE
- Make appropriate inquiries of management and the CAE to determine whether there is inappropriate scope or resource limitations

The CAE will have unrestricted access to, and communicate and interact directly with the ARC Committee. The director will meet quarterly with the ARC Committee to report on activities of the department. In addition, the director will meet privately with the ARC Committee as needed.

AMS personnel will have complete, free and unrestricted access to all university departments, activities, data, records, property and personnel necessary for the completion of audits or special projects. When appropriate, arrangements will be made for access to highly confidential information.

AMS personnel must demonstrate integrity, independence and objectivity and, therefore, will not be unduly influenced in selecting audit procedures, reporting and performing investigations. The CAE will be responsible for reporting situations that impair independence and objectivity of the audit staff to the president and the ARC Committee.

In order to maintain independence and objectivity, AMS personnel will not:

- Perform operational duties for the university
- Initiate or approve accounting transactions external to the internal auditing department

- Direct the activities of any university employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors

Internal auditors may provide assurance services for areas previously consulted, provided the consulting services do not impair objectivity.

## **6.2 Proficiency and Due Professional Care**

Audit staff will possess the knowledge, skills and other competencies needed to perform their individual responsibilities. Each auditor will be required to obtain appropriate continuing education each year to maintain professional proficiency, as evidenced by certifications and licenses. In addition, the department will collectively possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

The audit staff will apply the skill expected of a reasonably prudent and competent internal auditor. Auditors should be alert to the significant risks that might affect university goals and objectives, operations or resources. However, audit assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

## **6.3 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 ARC Committee of the Board of Visitors, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the university.

Internal audit assessments may include evaluating whether:

- Risks relating to the achievement of the university's strategic objectives are appropriately identified and managed
- The actions of the university's officers, directors, employees, and contractors are in compliance with the university's 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 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

AMS may also provide consulting services, beyond assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.

#### **6.4 Risk-Based Audit Plan**

AMS will develop a risk-based annual audit plan, which will be approved by the ARC Committee. Modifications may be made to the annual audit plan, based on management requests or new circumstances that come to the attention of AMS. All modifications will be approved by the ARC Committee.

Frequency of a particular audit is ordinarily determined by the risk associated with the audit area. A risk assessment will be maintained for each audit area and used to develop the annual audit plan. In addition to the risk-based audits, the annual audit plan should include, to the extent practicable, time for special projects and follow-up audits.

The CAE will report semiannually to the ARC Committee on accomplishment of the annual audit plan.

#### **6.5 Audit Process and Report Issuance**

The director will be responsible for maintaining a departmental policies and procedures manual that will govern the performance of audits. All work papers will be reviewed to ensure quality.

Opportunities for improving internal controls, compliance, and financial management may be identified during audits. At the conclusion of test work (last phase of the audit), a draft report will be submitted to the department head and the assistant vice president (or dean), and a meeting may be held to discuss the report. Any necessary revisions to the report will be made and a revised draft will be sent to the department head, with the assistant vice president (or dean) receiving a copy. The department head will be asked to provide, within one-week, written responses to the report recommendations. Possible responses include the development of an action plan with an estimated completion date or acceptance of risk (based on a cost-benefit analysis). However, risks which jeopardize compliance with laws and regulations generally cannot be accepted.

Once responses are received, the draft report (with responses included) will be forwarded to the responsible vice president, with the department head and assistant vice president (or dean) receiving copies. Unless contacted by the vice president within one week, the final report will be issued. The original report will be sent to the president, and copies will be distributed to the ARC Committee, vice president, assistant vice president (or dean), and department head.

The final audit report will include an opinion on the effectiveness of internal controls for processes reviewed, possible recommendations to ensure compliance and establish or enhance controls, and management responses to the recommendations. Audit reports are prepared to assist the president and administration in their decision making. Therefore, report distribution will be restricted to individuals who are organizationally responsible for the activity.

#### **6.6 Follow-up Review**

AMS will perform follow-up reviews after audit reports are issued to determine the status of corrective action plans. A follow-up report will be submitted to the department head and assistant vice president (or dean) at the conclusion of each follow-up review. In addition, the

results of individual follow-up reviews will be included in action plan status reports, which will be periodically submitted to the vice presidents, president, and ARC Committee.

### **6.7 Coordination with External Auditing Agencies**

The director will coordinate the department's audit efforts with the Auditor of Public Accounts and other external auditors.

It may be necessary under certain circumstances to request audits from external sources. After approval by the president, these requests will be coordinated through AMS. The director will help ensure that external auditors have access to appropriate personnel and information that is relevant, complete and accurate. Additionally, AMS will strive to minimize the time required by visiting auditors and limit disruptions to the conduct of normal business.

A copy of all audit reports issued by external auditors and responses to those reports will be provided to AMS. AMS may also perform appropriate follow-up on significant findings and provide status reports on implementation to the vice presidents, president and ARC Committee.

### **6.8 Implementation of New Systems and Major Modifications to Existing System**

It is the responsibility of university management to establish adequate internal controls when information systems containing critical or sensitive information are implemented or modified. Upon request, AMS may provide consulting or advisory assistance to university officials involved with implementing controls for systems.

### **6.9 Management and Quality Assurance**

AMS will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of 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 AMS and identify opportunities for improvement. The CAE will communicate to the ARC Committee 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.

## **7. RESPONSIBILITIES**

The CAE has the responsibility to:

- Submit, at least annually, to the ARC Committee, a risk-based internal audit plan for review and approval
- Communicate to the ARC Committee the impact of any resource limitations on the internal audit plan
- Review and adjust the internal audit plan, as necessary, in response to changes in the university's business, risks, operations, programs, systems, and controls
- Ensure 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

- Follow up on engagement findings and corrective actions, and report periodically to senior management and the ARC Committee any corrective actions not effectively implemented
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld
- Ensure AMS collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter
- Ensure trends and emerging issues that could impact the university are considered and communicated to senior management and the ARC Committee as appropriate
- Consider emerging trends and successful practices in internal auditing
- Establish and ensure adherence to AMS policies and procedures
- Ensure adherence to the university's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the ARC Committee
- Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the ARC Committee
- Report any response to risk by management that may be unacceptable to the university
- Confirm to the ARC Committee, at least annually, the organizational independence of AMS
- Disclose to the ARC Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results
- Ensure conformance with The IIA's Code of Ethics and Standards, and create action plans to address any significant conformance issues. The CAE will report periodically to senior management and the ARC Committee regarding AMS's conformance to the Code of Ethics and the Standards
- Ensure that AMS 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 CAE determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties

The CAE also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. AMS may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided AMS 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.

Where the CAE 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 audit staff 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
- 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 or its affiliates
- Initiating or approving transactions external to the AMS
- Directing the activities of any employee not employed by AMS, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors

Academic and administrative department heads are responsible for:

- Allowing audit staff to have complete, free and unrestricted access to all university records and personnel necessary for the completion of audits and special projects
- Providing responses (including action plans and completion dates) in accordance with this policy
- Ensuring that action plans are completed in a timely manner

Vice presidents (or the Chief of Staff for the President's direct reports) are responsible for approving action plans included in audit reports and have ultimate responsibility for implementation of the action plans.

All departments, offices, and employees that generate, receive, or maintain public records under the terms of this policy are also responsible for compliance with Policy [1109](#) (Records Management).

## **8. SANCTIONS**

Sanctions will be commensurate with the severity and/or frequency of the offense and may include termination of employment.

## **9. EXCLUSIONS**

None.

## **10. INTERPRETATION**

The authority to interpret this policy rests with the board of visitors and is generally delegated to the Director of AMS.

**Previous version:** November 2020

**Approved by the president:** April 2008

**Approved by the ARC Committee of the Board of Visitors:** February 2023