

November 7, 2018

MEMORANDUM

TO: State Board of Regents
FROM: David L. Buhler
SUBJECT: USHE – Revisions of Policies R565 & R567

Issue

The Office of the Legislative Auditor, in its report "A Performance Audit of the Board of Regents," recommended the following as it relates to the system audit function:

"We recommend that the Board of Regents utilize an audit function to promote greater accountability throughout the Utah System of Higher Education. The internal audit director should report functionally to the Board of Regents

"We recommend that the internal auditor's duties only entail audit-related activities, which should be determined by the Board of Regents Audit Committee"

Background

The proposed revisions to the Board of Regents' auditing policies addresses these two recommendations by requiring the following:

- Require the system audit director to functionally report to the Regent Audit Subcommittee
- Restrict the system audit director from performing management or operational duties
- Clarify the role of the Regent Audit Subcommittee

Additional revisions include changes for consistency and style.

Commissioner's Recommendation

The Commissioner recommends the Regents approve the changes to the following policies, effective immediately and authorize the Commissioner's Office to file an Administrative Rule adopting these changes into Administrative Code R765-571:

- Policy R565, *Audit Committees and*
- Policy R567, *Internal Audit Program*

David L. Buhler
Commissioner of Higher Education

DLB/KLH/DSP
Attachments

R565-1. Purpose: To provide for the functions and responsibilities of ~~A~~audit ~~C~~committees within the Utah System of Higher Education (System).

R565-2. References

- 2.1. Utah Code §53B-6-102 (Standardized Systems Prescribed by the Board)
- 2.2. Utah Code §53B-7-101 (Financial Affairs Under the General Supervision of the Board)
- ~~2.3. Utah Code Title 52, Chapter 4 (Utah Open and Public Meeting Act)~~
- 2.43. Utah Code §63I-5 (Utah Internal Audit Act)
- 2.45. Regents Policy R561, Accounting and Financial Controls
- 2.56. Regents Policy R567, Internal Audit Program
- 2.67. Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing (IIA Standards)

R565-3. Audit Committees

- 3.1. The Board of Regents shall establish and maintain a Regent Audit Subcommittee as a standing subcommittee of the Finance and Facilities Committee.
- 3.2. Creation of Trustee Audit Committees: Each Board of Trustees shall create a standing ~~a~~udit ~~C~~committee to assist the full board in overseeing financial matters and to oversee institutional internal audit activities, in accordance with the *Internal Audit Act*² and IIA Standards.

R565-4. Regent and Trustee Audit Committee Charters

4.1. The Regent ~~Audit Subcommittee~~ and ~~institution boards of Trustees~~ ~~a~~udit ~~C~~committees shall establish respective audit charters that outline their purpose, authority, and responsibilities. The audit charters shall grant appropriate access to data, information, records, and personnel needed to conduct audit activities.

4.2. Authority

4.2.1. **Regent Audit Subcommittee:** The Regent Audit Subcommittee shall provide advice and recommendations to the Board of Regents regarding oversight ~~and internal controls~~ of the system and individual institutions, ~~and internal controls~~. Although the Regent Audit Subcommittee is not vested with decision making authority on behalf of the Board of Regents, the Regent Audit Subcommittee has authority to:

¹ Adopted November 22, 1977, amended June 27, 1978, September 2, 1999, March 18, 2005, March 9, 2007, October 29, 2010, and March 31, 2017.

² Utah Code 63I-5

4.2.1.1. Access any and all data, information, records, and personnel to fulfill its purpose and responsibilities;

4.2.1.2. Confer with external auditors, legal counsel, and others as necessary; and:

4.2.1.3. Conduct or authorize investigations into any matters considered necessary to achieve its purpose.

4.2.2. **Trustee Audit Committee:** Trustee Audit committees shall provide advice and recommendations to the Board of Trustees regarding institutional oversight and internal controls. Although ~~the T~~rustee Audit committees is are not vested with decision making authority on behalf of the board of Trustees, the Trustee audit Committee has authority to:

4.2.2.1. oversee the internal audit activities within the institution;

4.2.2.2. confer with external auditors, legal counsel, and others as necessary;

4.2.2.3. assist in resolving disagreements between institutional representatives and external auditors;

4.2.2.4. access any and all data, information, records, and personnel to fulfill its purpose and responsibilities;

4.2.2.5. conduct or authorize investigations into any matters considered necessary to achieve its purpose; and

4.2.2.6. consult with institutional representatives, the board of Trustees, and the Regent Audit Subcommittee concerning the adequacy of the institution's internal audit activities, staffing levels, and internal controls.

4.3. Committee Membership

4.3.1. **Regent Audit Subcommittee:** The Regent Audit Subcommittee ~~will~~ shall consist of at least three but no more than five members, including at least three members of the Board of Regents. The chair of the Board of Regents will appoint the subcommittee chair and members will be appointed by the Chair of the Regents. Unless a Committee subcommittee chair is appointed by the Board chair, the members of the Committee subcommittee may designate a Chair by majority vote. When practicable, at least one of the committee members should have financial expertise either through professional certification or experience.

4.3.2. **Trustee Audit Committee:** The Trustee Audit committee shall consist of at least three but no more than five members, including at least three members of the Board of Trustees. The Committee members will be appointed by the trustee Chair of the Trustees. Unless a committee chair is appointed by the Board chair, the members of the committee may designate a chair by majority vote. When practicable, at least one of the committee members should have financial expertise either through professional certification or experience.

4.4. Meetings

4.4.1. **Regent Audit Subcommittee:** The ~~Committee-subcommittee~~ shall meet at least ~~once~~ three times per year to review audit activities. The ~~subcommittee Committee~~ may meet with boards of trustees, institutional administrators, and auditors. Regent staff shall prepare and provide meeting agendas along with appropriate briefing materials.

4.4.2. **Trustee Audit Committee:** The ~~C~~committee shall meet at least three times a per year, with additional meetings as needed. The ~~c~~Committee may invite institutional administrators, auditors, and others to attend meetings and provide pertinent information. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Informal minutes will be prepared.

4.5. Responsibilities

4.5.1. The Regent Audit Subcommittee shall:

4.5.1.1. Schedule meetings and correspondence as necessary to maintain regular, independent communication and information flow between the Regent Audit Subcommittee and trustee audit committees (via trustee chairs and trustee audit committee chairs).

4.5.1.2. Receive and review reports from trustee audit committees (via trustee chairs and trustee audit committee chairs) regarding the annual financial statements, including a summary of significant accounting and reporting issues.

4.5.1.3. Receive and review reports from trustee audit committees (via trustee chairs and trustee audit committee chairs) regarding the results of the annual financial statement audit, including audit scope and approach, any restrictions on the auditor's activities or on access to requested information, and any significant disagreements with institutional representatives.

4.5.1.4. Receive and review reports from the system audit director and institution auditors regarding the control environment, means of communicating standards of conduct, and practices with respect to risk assessment and risk management.

4.5.1.5. Receive and review reports from the system audit director and institution auditors regarding systems of internal control.

4.5.1.6. Receive and review reports from institutions regarding the receipt, retention, and treatment of complaints, including anonymous complaints about accounting, auditing, internal control, and other related issues.

4.5.1.7. Review reports from the system audit director and institution auditors regarding systems for monitoring compliance with all applicable laws and regulations.

4.5.1.8. Obtain regular updates from institutions regarding instances of material noncompliance that might have implications for the System.

4.5.1.9. Receive annual summary reports from trustee audit committees (via trustee chairs and trustee audit committee chairs) regarding the results of the internal auditing

program at each institution, including any restrictions and limitations on internal auditing activities.

4.5.1.10. At least annually, the ~~subcommittee~~ ~~Committee~~ will provide a report or minutes of meetings to the full Board of Regents detailing the Committee's activities and recommendations.

4.5.2. The Trustee Audit Committee shall:

4.5.2.1. Schedule meetings and correspondence as necessary to maintain regular, independent communication and information flow between the Trustee Audit Committee and external auditors.

4.5.2.2. Review the institution's financial statements, including significant accounting and reporting issues. This includes reviewing the management discussion and analysis of the financial statements, along with any analyses prepared by institutional administration and/or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements.

4.5.2.3. Review with the administration and the external auditors the results of the annual financial statement audit, including audit scope and approach, any restrictions on the auditor's activities or on access to requested information, and any significant disagreements with institutional representatives.

4.5.2.4. Review information regarding the institution's control environment, means of communicating standards of conduct, and practices with respect to risk assessment and risk management.

4.5.2.5. Confer with external and internal auditors regarding the quality of institutional systems of internal control.

4.5.2.6. Review information regarding the receipt, retention, and treatment of complaints, including anonymous complaints about accounting, auditing, internal control, and other related issues.

4.5.2.7. Review with campus administrators and other institutional representatives the adequacy of the institution's auditing personnel, staffing levels, and controls.

4.5.2.8. Review information provided by the administration regarding systems for monitoring compliance with all applicable laws and regulations.

4.5.2.9. Obtain regular updates from institutional administrators and/or legal counsel regarding instances of material noncompliance that might have implications for the institution.

4.5.2.10. Review with the administration and the chief internal audit executive the charter, plans, activities, staffing and organizational structure of the internal audit function.

4.5.2.11. Review any restrictions and limitations on internal auditing activities.

4.5.2.12. ~~Advise the Board of Trustees regarding the appointment, evaluate performance, if necessary, replacement, or dismissal of~~ the institution's chief internal audit executive.

4.5.2.13. Receive and review internal audit reports and/or periodic summaries of internal audit activities prepared by the chief internal audit executive.

4.5.2.14. Schedule meetings and correspondence as necessary to maintain regular, independent communication and information flow between the cCommittee and the institution's chief internal audit executive.

4.6. Reporting

4.6.1. Regent Audit Subcommittee

4.6.1.1. At least annually, the ~~subcommittee~~ Committee will provide a report or minutes of meetings to the full Board of Regents detailing the cCommittee's activities and recommendations.

4.6.2. Trustee Audit Committee

4.6.2.1. At least annually, the cCommittee shall provide a report or minutes of meetings to the full Board of Trustees detailing the cCommittee's activities and recommendations.

4.6.2.2. The ~~T~~rustees chair and ~~t~~rustees ~~a~~Audit cCommittee chair shall meet at least annually with the Regent Audit Subcommittee to provide updates on the institutional activities required by this policy.

4.6.2.3 The cCommittee shall prepare an annual report summarizing internal and external audit results from the prior year and an audit plan for the upcoming year. -This report shall be submitted to the Board of Regents ~~Manager-audit director of Audit~~ no later than five business days before the annual ~~B~~oard of Regents ~~A~~udit Subcommittee meeting.

R565-1. Purpose: To provide for the functions and responsibilities of audit committees within the Utah System of Higher Education (System).

R565-2. References

- 2.1. Utah Code §53B-6-102 (Standardized Systems Prescribed by the Board)
- 2.2. Utah Code §53B-7-101 (Financial Affairs Under the General Supervision of the Board)
- 2.3. Utah Code §63I-5 (Utah Internal Audit Act)
- 2.4. Regents Policy R561, Accounting and Financial Controls
- 2.5. Regents Policy R567, Internal Audit Program
- 2.6. Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing (IIA Standards)

R565-3. Audit Committees

- 3.1. The Board of Regents shall establish and maintain a Regent Audit Subcommittee as a standing subcommittee of the Finance and Facilities Committee.
- 3.2. Creation of Trustee Audit Committees: Each Board of Trustees shall create a standing Audit Committee to assist the full board in overseeing financial matters and to oversee institutional internal audit activities, in accordance with the *Internal Audit Act*² and IIA Standards.

R565-4. Regent and Trustee Audit Committee Charters

4.1. The Regent Audit Subcommittee and institution boards of trustees audit committees shall establish respective audit charters that outline their purpose, authority, and responsibilities. The audit charters shall grant appropriate access to data, information, records, and personnel needed to conduct audit activities.

4.2. Authority

4.2.1. **Regent Audit Subcommittee:** The Regent Audit Subcommittee shall provide advice and recommendations to the Board of Regents regarding oversight and internal controls of the system and individual intuitions. Although the Regent Audit Subcommittee is not vested with decision making authority on behalf of the Board of Regents, the Regent Audit Subcommittee has authority to:

¹ Adopted November 22, 1977, amended June 27, 1978, September 2, 1999, March 18, 2005, March 9, 2007, October 29, 2010, and March 31, 2017.

² Utah Code 63I-5

4.2.1.1. Access any and all data, information, records, and personnel to fulfill its purpose and responsibilities;

4.2.1.2. Confer with external auditors, legal counsel, and others as necessary; and

4.2.1.3. Conduct or authorize investigations into any matters considered necessary to achieve its purpose.

4.2.2. Trustee Audit Committee: Trustee audit committees shall provide advice and recommendations to the Board of Trustees regarding institutional oversight and internal controls. Although trustee audit committees are not vested with decision making authority on behalf of the board of trustees, the trustee audit committee has authority to:

4.2.2.1. oversee the internal audit activities within the institution;

4.2.2.2. confer with external auditors, legal counsel, and others as necessary;

4.2.2.3. assist in resolving disagreements between institutional representatives and external auditors;

4.2.2.4. access any and all data, information, records, and personnel to fulfill its purpose and responsibilities;

4.2.2.5. conduct or authorize investigations into any matters considered necessary to achieve its purpose; and

4.2.2.6. consult with institutional representatives, the board of trustees, and the Regent Audit Subcommittee concerning the adequacy of the institution's internal audit activities, staffing levels, and internal controls.

4.3. Committee Membership

4.3.1. Regent Audit Subcommittee: The Regent Audit Subcommittee shall consist of at least three but no more than five members, including at least three members of the Board of Regents. The Chair of the Board of Regents will appoint the subcommittee chair and members. When practicable, at least one of the committee members should have financial expertise either through professional certification or experience.

4.3.2. Trustee Audit Committee: The trustee audit committee shall consist of at least three but no more than five members, including at least three members of the board of trustees. The Committee members will be appointed by the trustee chair. Unless a committee chair is appointed by the board chair, the members of the committee may designate a chair by majority vote. When practicable, at least one of the committee members should have financial expertise either through professional certification or experience.

4.4. Meetings

4.4.1. Regent Audit Subcommittee: The subcommittee shall meet at least three times per year to review audit activities. The subcommittee may meet with boards of trustees, institutional administrators, and auditors. Regent staff shall prepare and provide meeting agendas along with appropriate briefing materials.

4.4.2. Trustee Audit Committee: The committee shall meet at least three times a per year, with additional meetings as needed. The committee may invite institutional administrators, auditors, and others to attend meetings and provide pertinent information. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Informal minutes will be prepared.

4.5. Responsibilities

4.5.1. The Regent Audit Subcommittee shall:

4.5.1.1. Schedule meetings and correspondence as necessary to maintain regular, independent communication and information flow between the Regent Audit Subcommittee and trustee audit committees (via trustee chairs and trustee audit committee chairs).

4.5.1.2. Receive and review reports from trustee audit committees (via trustee chairs and trustee audit committee chairs) regarding the annual financial statements, including a summary of significant accounting and reporting issues.

4.5.1.3. Receive and review reports from trustee audit committees (via trustee chairs and trustee audit committee chairs) regarding the results of the annual financial statement audit, including audit scope and approach, any restrictions on the auditor's activities or on access to requested information, and any significant disagreements with institutional representatives.

4.5.1.4. Receive and review reports from the system audit director and institution auditors regarding the control environment, means of communicating standards of conduct, and practices with respect to risk assessment and risk management.

4.5.1.5. Receive and review reports from the system audit director and institution auditors regarding systems of internal control.

4.5.1.6. Receive and review reports from institutions regarding the receipt, retention, and treatment of complaints, including anonymous complaints about accounting, auditing, internal control, and other related issues.

4.5.1.7. Review reports from the system audit director and institution auditors regarding systems for monitoring compliance with all applicable laws and regulations.

4.5.1.8. Obtain regular updates from institutions regarding instances of material noncompliance that might have implications for the System.

4.5.1.9. Receive annual summary reports from trustee audit committees (via trustee chairs and trustee audit committee chairs) regarding the results of the internal auditing program at each institution, including any restrictions and limitations on internal auditing activities.

4.5.1.10. At least annually, the subcommittee will provide a report or minutes of meetings to the full Board of Regents detailing the Committee's activities and recommendations.

4.5.2. The Trustee Audit Committee shall:

4.5.2.1. Schedule meetings and correspondence as necessary to maintain regular, independent communication and information flow between the trustee audit committee and external auditors.

4.5.2.2. Review the institution's financial statements, including significant accounting and reporting issues. This includes reviewing the management discussion and analysis of the financial statements, along with any analyses prepared by institutional administration and/or external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements.

4.5.2.3. Review with the administration and the external auditors the results of the annual financial statement audit, including audit scope and approach, any restrictions on the auditor's activities or on access to requested information, and any significant disagreements with institutional representatives.

4.5.2.4. Review information regarding the institution's control environment, means of communicating standards of conduct, and practices with respect to risk assessment and risk management.

4.5.2.5. Confer with external and internal auditors regarding the quality of institutional systems of internal control.

4.5.2.6. Review information regarding the receipt, retention, and treatment of complaints, including anonymous complaints about accounting, auditing, internal control, and other related issues.

4.5.2.7. Review with campus administrators and other institutional representatives the adequacy of the institution's auditing personnel, staffing levels, and controls.

4.5.2.8. Review information provided by the administration regarding systems for monitoring compliance with all applicable laws and regulations.

4.5.2.9. Obtain regular updates from institutional administrators and/or legal counsel regarding instances of material noncompliance that might have implications for the institution.

4.5.2.10. Review with the administration and the chief internal audit executive the charter, plans, activities, staffing and organizational structure of the internal audit function.

4.5.2.11. Review any restrictions and limitations on internal auditing activities.

4.5.2.12. Appoint, evaluate performance, if necessary, dismiss the institution's chief internal audit executive.

4.5.2.13. Receive and review internal audit reports and/or periodic summaries of internal audit activities prepared by the chief internal audit executive.

4.5.2.14. Schedule meetings and correspondence as necessary to maintain regular, independent communication and information flow between the committee and the institution's chief internal audit executive.

4.6. Reporting

4.6.1. Regent Audit Subcommittee

4.6.1.1. At least annually, the subcommittee will provide a report or minutes of meetings to the full Board of Regents detailing the Committee's activities and recommendations.

4.6.2. Trustee Audit Committee

4.6.2.1. At least annually, the committee shall provide a report or minutes of meetings to the full Board of Trustees detailing the Committee's activities and recommendations.

4.6.2.2. The trustees chair and trustees audit committee chair shall meet at least annually with the Regent Audit Subcommittee to provide updates on the institutional activities required by this policy.

4.6.2.3 The committee shall prepare an annual report summarizing internal and external audit results from the prior year and an audit plan for the upcoming year. This report shall be submitted to the Board of Regents audit director no later than five business days before the annual Board of Regents Audit Subcommittee meeting.

R567-1. Purpose: To establish policies and standards for internal audit departments within the Utah System of Higher Education (USHE).

R567-2. References

- 2.1. Utah Code §53B-6-102 (Standardized Systems Prescribed by the Board)
- 2.2. Utah Code §53B-7-101 (Financial Affairs Under the General Supervision of the Board)
- 2.3. Policy and Procedures R565, Audit Review Subcommittee
- 2.4. Policy and Procedure R120-3.3.2.7, Bylaws of the Board of Regents, Auditing Records
- 2.5. Utah Code §63I-5 (Utah Internal Audit Act)
- 2.6. Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing (IIA Standards)

R567-3. Definitions

3.1 Audit Charter. “The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”² The audit charter should grant appropriate access to data, information, records, and personnel needed to fulfill the internal audit activity’s purpose and responsibilities.

3.2 Institution Audit Committee: Institution audit committees provide functional oversight of the internal audit activities, as described in the *Internal Audit Act*³, and in accordance with IIA Standards.⁴ Boards of trustees shall establish audit committees in adherence to the *Utah Internal Audit Act* and R565, Audit Committees.

3.3. Internal Auditing: 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.

3.2. Institution Internal Audit Activity: Any activity administered by the institution’s internal auditing organization. Each institution’s audit committee shall establish an audit charter, granting the internal audit unit authority to engage in audit activities.

¹ Adopted April 24, 1973, amended May 29, 1973, June 26, 1973, November 27, 1973, January 28, 1975 and April 22, 1975; replaced January 17, 1992, amended April 17, 1992, March 18, 2005, and March 31, 2017.

² IIA Standards, 1000: Purpose, Authority, and Responsibility.

³ See Utah Code 63I-5-301(3).

⁴ IIA Standard 1110.

3.3. **Board of Regents Audit Manager/Director:** The ~~manager audit director for audit and financial services~~ reports functionally to the Regent Audit Subcommittee and administratively to the Associate Commissioner for Finance, ~~and Facilities, and Research~~ within the Office of the Commissioner. The audit ~~manager/director~~ provides audit support to the Board of Regents and to institution audit activities.

R567-4. Policy

4.1. **General Standards:** Internal audit activities shall comply with IIA Standards. Other professional standards (such as "Generally Accepted Auditing Standards" disseminated by the American Institute of Certified Public Accountants, or Government Auditing Standards published by the Comptroller General of the United States) may also apply to particular audit assignments, as determined by the institution's audit committee or the Board of Regents.

4.2. **Internal Audit Activities Required at All Institutions:** The State Board of Regents requires each USHE institution to maintain an internal audit activity plan.

4.3. **Internal Audit Activity Independence and Objectivity:** Internal audit activities shall remain independent and objective. Institutions and internal auditors may foster independence by adhering to applicable standards, including:

4.3.1. **Organizational Independence:** Each institution should maintain organizational independence by establishing functional and administrative reporting relationships consistent with IIA Standards 1110 and 1111.

4.3.2. **Internal Audit Activity Objectivity:** Internal auditors shall adhere to standards of independence and objectivity outlined in IIA Standards 1100 and 1120.

4.3.3. **Independence Impairment Disclosure:** Internal auditors shall properly disclose impairments to independence, as required in IIA Standard 1130.

4.3.4. **Role in Institution Operations:** System and Institution internal auditors shall not participate in institution management or operational responsibilities that would impair independence.

4.4. **Institution Audits:** In addition to audits required by policy, institution internal auditors shall conduct risk-based audits for their institutions, as assigned by the institution audit committee. Institution presidents and executive cabinet may also request audit activities.

4.5. **Required Audits:** Institution internal auditors shall annually conduct the following audits:

4.5.1 **Presidential Travel** (in accordance with R212-1.2)

4.5.2 **Institutional Investments** (in accordance with R541-11)

4.5.3 **Auxiliary Enterprises** (in accordance with R550-7.3)

4.6. **Institution Risk Assessment:** Internal auditors shall participate in institution risk assessments at least annually and report the results to the institution audit committee. Institution risks may include financial, operational, efficiency, fraud, compliance, internal control, information systems, data loss, reputation and political.

4.7. **Institution Audit Communication:** Upon completion of internal audit activities, institution auditors shall communicate the results to the institution audit committee.

4.8. **Communication with Institution Management:** The chief audit executive shall meet with the institution president at least annually to review completed audits, institution responses, and other pertinent issues.

4.9. **Audit Committee Responsibilities:** The audit committee shall adhere to responsibilities established in the *Utah Internal Audit Act* and R565, Audit Committees.

4.10. **Coordination of System-Wide Audits:** Under the direction of the Regent Audit Subcommittee, ~~The~~ Commissioner of Higher Education and institution presidents shall coordinate assignments to conduct system-wide internal audits.

4.11. **Special Audits Directed by the Commissioner:** Under the direction of the Regent Audit Subcommittee, ~~The~~ Commissioner, ~~with prior notification to the institution president,~~ may schedule and conduct an audit at ~~the-an~~ institution, separately or in cooperation with a resident chief audit executive. (See State Board of Regents Bylaw R120-3.3.2.7.)

4.12. **Audit Notification:** The institution's vice president of finance or chief audit executive shall promptly notify the Board of Regents audit ~~manager~~director regarding apparent fraud or misconduct with any of the following attributes:

- 4.12.1 significant embezzlement, theft, or other fraud;
- 4.12.2 concerns that may damage an institution's reputation;
- 4.12.3 apparent misuse of institutional resources of at least \$25,000;
- 4.12.4 issues that may be covered by the media; or
- 4.12.5 any other issue that requires attention from the Board of Regents or the Commissioner.

R567-1. Purpose: To establish policies and standards for internal audit departments within the Utah System of Higher Education (USHE).

R567-2. References

- 2.1. Utah Code §53B-6-102 (Standardized Systems Prescribed by the Board)
- 2.2. Utah Code §53B-7-101 (Financial Affairs Under the General Supervision of the Board)
- 2.3. Policy and Procedures R565, Audit Review Subcommittee
- 2.4. Policy and Procedure R120-3.3.2.7, Bylaws of the Board of Regents, Auditing Records
- 2.5. Utah Code §63I-5 (Utah Internal Audit Act)
- 2.6. Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing (IIA Standards)

R567-3. Definitions

3.1 Audit Charter. “The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”² The audit charter should grant appropriate access to data, information, records, and personnel needed to fulfill the internal audit activity’s purpose and responsibilities.

3.2 Institution Audit Committee: Institution audit committees provide functional oversight of the internal audit activities, as described in the *Internal Audit Act*³, and in accordance with IIA Standards.⁴ Boards of trustees shall establish audit committees in adherence to the *Utah Internal Audit Act* and R565, Audit Committees.

3.3. Internal Auditing: 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.

3.2. Institution Internal Audit Activity: Any activity administered by the institution’s internal auditing organization. Each institution’s audit committee shall establish an audit charter, granting the internal audit unit authority to engage in audit activities.

¹ Adopted April 24, 1973, amended May 29, 1973, June 26, 1973, November 27, 1973, January 28, 1975 and April 22, 1975; replaced January 17, 1992, amended April 17, 1992, March 18, 2005, and March 31, 2017.

² IIA Standards, 1000: Purpose, Authority, and Responsibility.

³ See Utah Code 63I-5-301(3).

⁴ IIA Standard 1110.

3.3. Board of Regents Audit Director: The audit director reports functionally to the Regent Audit Subcommittee and administratively to the Associate Commissioner for Finance, Facilities, and Research within the Office of the Commissioner. The audit director provides audit support to the Board of Regents and to institution audit activities.

R567-4. Policy

4.1. General Standards: Internal audit activities shall comply with IIA Standards. Other professional standards (such as "Generally Accepted Auditing Standards" disseminated by the American Institute of Certified Public Accountants, or Government Auditing Standards published by the Comptroller General of the United States) may also apply to particular audit assignments, as determined by the institution's audit committee or the Board of Regents.

4.2. Internal Audit Activities Required at All Institutions: The State Board of Regents requires each USHE institution to maintain an internal audit activity plan.

4.3 Internal Audit Activity Independence and Objectivity: Internal audit activities shall remain independent and objective. Institutions and internal auditors may foster independence by adhering to applicable standards, including:

4.3.1. Organizational Independence: Each institution should maintain organizational independence by establishing functional and administrative reporting relationships consistent with IIA Standards 1110 and 1111.

4.3.2. Internal Audit Activity Objectivity: Internal auditors shall adhere to standards of independence and objectivity outlined in IIA Standards 1100 and 1120.

4.3.3. Independence Impairment Disclosure: Internal auditors shall properly disclose impairments to independence, as required in IIA Standard 1130.

4.3.4. Role in Institution Operations: System and institution internal auditors shall not participate in institution management or operational responsibilities that would impair independence.

4.4. Institution Audits: In addition to audits required by policy, institution internal auditors shall conduct risk-based audits for their institutions, as assigned by the institution audit committee. Institution presidents and executive cabinet may also request audit activities.

4.5. Required Audits: Institution internal auditors shall annually conduct the following audits:

4.5.1 Presidential Travel (in accordance with R212-1.2)

4.5.2 Institutional Investments (in accordance with R541-11)

4.5.3 Auxiliary Enterprises (in accordance with R550-7.3)

4.6. Institution Risk Assessment: Internal auditors shall participate in institution risk assessments at least annually and report the results to the institution audit committee. Institution risks may include financial, operational, efficiency, fraud, compliance, internal control, information systems, data loss, reputation and political.

4.7. Institution Audit Communication: Upon completion of internal audit activities, institution auditors shall communicate the results to the institution audit committee.

4.8. Communication with Institution Management: The chief audit executive shall meet with the institution president at least annually to review completed audits, institution responses, and other pertinent issues.

4.9. Audit Committee Responsibilities: The audit committee shall adhere to responsibilities established in the *Utah Internal Audit Act* and R565, Audit Committees.

4.10. Coordination of System-Wide Audits: Under the direction of the Regent Audit Subcommittee, the Commissioner of Higher Education and institution presidents shall coordinate assignments to conduct system-wide internal audits.

4.11. Special Audits Directed by the Commissioner: Under the direction of the Regent Audit Subcommittee, the Commissioner may schedule and conduct an audit at an institution, separately or in cooperation with a resident chief audit executive. (See State Board of Regents Bylaw R120-3.3.2.7.)

4.12. Audit Notification: The institution's vice president of finance or chief audit executive shall promptly notify the Board of Regents audit director regarding apparent fraud or misconduct with any of the following attributes:

4.12.1 significant embezzlement, theft, or other fraud;

4.12.2 concerns that may damage an institution's reputation;

4.12.3 apparent misuse of institutional resources of at least \$25,000;

4.12.4 issues that may be covered by the media; or

4.12.5 any other issue that requires attention from the Board of Regents or the Commissioner.