Internal Audit

TENNESSEE TECH

Internal Audit Charter

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Purpose

The purpose of the Tennessee Tech Internal Audit function is to strengthen the university's ability to create, protect, and sustain value by providing the Audit and Business Committee of the Board of Trustees (Audit and Business Committee) and management with independent, risk-based, and objective assurance, advice, insight, and foresight. The Internal Audit function enhances Tennessee Tech's:

- successful achievement of its objectives,
- governance, risk management, and control processes,
- decision-making and oversight,
- reputation and credibility with its stakeholders, and
- ability to serve the public interest.

Mandate

Tennessee Tech's Internal Audit function mandate is set forth by laws of the State of Tennessee. *The Higher Education Accountability Act of 2004* found in Tennessee Code Annotated § 49-14-102(b) states that *"Each audit committee shall employ a person qualified by training and experience to serve as the chief internal auditor...[who] shall report directly to the audit committee and respective board."* Additionally, Tenn. Code Ann. § 4-3-304 states that *"No...institution...shall cause internal auditing to be performed by persons who do not meet the job specifications for internal auditors......and (9) ...minimum standards for the performance of audits by the internal audit staffs of ...institutions... or other entities of the state...shall include "Standards for the Professional Practice of Internal Auditing" published by the Institute of Internal Auditors, Inc., or such other standards as may be approved by the comptroller of the treasury."*

Independence, Organizational Position, and Reporting Relationships

The Chief Audit Executive (CAE) is positioned at a level within Tennessee Tech that enables internal audit services and responsibilities to be performed without influence from management, thereby establishing the independence of the Internal Audit function.

The CAE reports functionally to the Chair of the Audit and Business Committee and administratively to the President of Tennessee Tech for day-to-day operations. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Audit and Business Committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

Authority
The Internal Audit function's authority established by its organizational position and direct reporting relationships allows for unrestricted access to the Audit and Business Committee.

The Audit and Business Committee authorizes the Internal Audit function to:
- have full and unrestricted access to all Tennessee Tech functions, data, records, information, systems, physical property, and personnel pertinent to executing internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- obtain assistance from the necessary personnel of Tennessee Tech and other specialized services from within or outside the University to complete internal audit services.

Commitment to Adhering to the Global Internal Audit Standards
Tennessee Tech's Internal Audit function is most effective when performed by competent professionals in conformance with The Institute of Internal Auditors' (IIA) International Professional Practices Framework, which comprise Global Internal Audit Standards™ and Topical Requirements (Standards). Tennessee Tech's Internal Audit function adheres to the mandatory elements of the Standards.

The CAE reports the following at least annually to the Audit and Business Committee and senior management:
- the Internal Audit function's conformance with the Standards, assessed through a quality assurance and improvement program (QAIP);
- positive confirmation of the department's organizational independence or the disclosure of any safeguards needed or implemented to achieve the principle of independence; and
- any interference related to the scope, performance, or communication of internal audit work and results, if applicable.

Changes to the Mandate and Internal Audit Charter
The CAE periodically assesses whether the charter's provisions continue to enable the Internal Audit function to accomplish its objectives. The results of this periodic assessment are communicated to senior management and the Tennessee Tech Audit and Business Committee for review and approval or reaffirmation.

Circumstances that may justify a revision of the internal audit mandate or other aspects of the Internal Audit Charter include but are not limited to:
- a significant change in the Standards,
- a significant reorganization within the organization,
- significant changes in the CAE, the Audit and Business Committee, and/or senior management,
- significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates, or
- new laws or regulations that may affect the nature and/or scope of internal audit services.

Audit and Business Committee Oversight

In accordance with the State of Tennessee Audit Committee Act of 2005 found in Tenn. Code Ann. § 4-35, the Audit and Business Committee has a separate Committee Charter that outlines its responsibilities in relation to the Internal Audit function. Additionally, Tennessee Tech is a public sector organization. Therefore, the Internal Audit function budget is part of the University's overall budget that is dependent on the State of Tennessee budget and is approved by senior management in conjunction with the Board of Trustees. Instead of direct approval, the Audit and Business Committee discusses with the CAE and senior management the appropriate authority, role, responsibilities, scope, and services of the Internal Audit function and ensures adequate resources to allow the Internal Audit function to fulfill its mandate and accomplish its audit plan.

Chief Audit Executive Roles and Responsibilities

Ethics and Professionalism
The CAE ensures that internal auditors:
- conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality,
- understand, respect, meet, and contribute to the legitimate and ethical expectations of the university and recognize conduct that is contrary to those expectations,
- encourage and promote an ethics-based culture in the organization, and
- report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

Objectivity
The CAE ensures that the Internal Audit function remains free from all conditions that threaten the ability of internal auditors to perform their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment are disclosed to appropriate parties.

Internal auditors maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance. Internal auditors have no direct operational responsibility or authority over any of the activities they review.

Accordingly, internal auditors do not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:
- assessing specific operations for which they had responsibility within the previous year,
- performing operational duties for Tennessee Tech or its affiliates,
- initiating or approving transactions external to the Internal Audit function; or

- directing the activities of any Tennessee Tech employee that is not employed by the Internal Audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors:
- disclose impairments of independence or objectivity, in fact or appearance, at least annually to the CAE, who reports these disclosures to the Audit and Business Committee, management, or others as deemed necessary,
- exhibit professional objectivity in gathering, evaluating, and communicating information,
- make balanced assessments of available and relevant facts and circumstances, and
- take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function
The CAE has the responsibility to:
- at least annually, develop a risk-based internal audit plan that considers the input of the Audit and Business Committee and senior management. Discuss the plan with the Audit and Business Committee and senior management and submit the plan to the Audit and Business Committee for review and approval.
- communicate the impact of resource limitations on the internal audit plan to the Audit and Business Committee and senior management.
- review and adjust the internal audit plan, as necessary, in response to changes in Tennessee Tech's business, risks, operations, programs, systems, and controls.
- communicate with the Audit and Business Committee and senior management if there are significant interim changes to the internal audit plan.
- communicate the results of internal audit services to the Audit and Business Committee, senior management, and the state comptroller's office or others as may be required. Follow up on engagement findings and confirm the implementation of recommendations or action plans as appropriate.
- ensure the Internal Audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Standards and fulfill the internal audit mandate.
- identify and consider trends and emerging issues that could impact Tennessee Tech and communicate to the Audit and Business Committee and senior management as appropriate.
- consider emerging trends and successful practices in internal auditing.
- establish and ensure adherence to methodologies designed to guide the Internal Audit function.
- ensure adherence to Tennessee Tech's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Audit and Business Committee and senior management.
- coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Audit and Business Committee.

Quality Assurance and Improvement Program (QAIP)
The CAE develops, implements, and maintains a QAIP that covers all aspects of the Internal Audit function. The program includes external and internal assessments of the Internal Audit function's conformance with the Standards, as well as performance measurement to assess the Internal Audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also assesses, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment includes plans to address the Internal Audit function's deficiencies and opportunities for improvement.

Annually, the CAE communicates with the Audit and Business Committee and senior management about the Internal Audit function's QAIP, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments are conducted at least once every five years by a qualified, independent assessor or assessment team from outside Tennessee Tech; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential. Public sector competencies and knowledge as well as knowledge of the Standards are considered when selecting external assessors.

Communication with the Audit and Business Committee and Senior Management
The CAE reports at least annually, and sometimes quarterly, to the Audit and Business Committee and senior management regarding:
- the Internal Audit function's mandate,
- the internal audit plan, performance relative to the plan, and required resources,
- significant revisions to the internal audit plan and resources,
- potential impairments to independence, including relevant disclosures as applicable,
- results from the QAIP, both internal and external when applicable,
- significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Audit and Business Committee that could interfere with the achievement of Tennessee Tech's strategic objectives,
- results of assurance and advisory services,
- management's responses to risk that the Internal Audit function determines may be unacceptable or acceptance of a risk that is beyond Tennessee Tech's risk appetite or control, such as potential funding restrictions impacting management's ability to respond to risks toward strategic objectives.

Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organization, including all of Tennessee Tech's activities, programs, assets, personnel, and auxiliary operations. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Audit and Business Committee and senior management on the adequacy and effectiveness of governance, risk management, and control processes for Tennessee Tech.

The nature and scope of advisory services may be agreed to with the party requesting the service, provided the Internal Audit function does not assume management responsibility. Opportunities for

improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements and communicated to the appropriate level of management. Examples of internal audit engagements include, but are not limited to, evaluating or advising whether:

- risks relating to the achievement of Tennessee Tech's strategic objectives are appropriately identified and managed,
- the actions of Tennessee Tech's officers, directors, management, employees, and contractors or other relevant parties comply with university policies, procedures, applicable laws, regulations, and/or governance standards,
- the results of operations and programs are consistent with established goals and objectives,
- operations and programs are effective and/or efficient,
- established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Tennessee Tech,
- allegations of potential fraud, waste, or abuse are appropriately reviewed and addressed,
- the integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable,
- resources and assets are economically acquired, efficiently and sustainably used, and/or adequately protected.

Approved by the Audit and Business Committee on March 6, 2025.