

Tennessee Higher Education Commission  
Tennessee Student Assistance Corporation  
Internal Audit Charter

**Purpose and Mission**

The purpose of THEC/TSAC's internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit activity helps THEC/TSAC 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 internal audit activity will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors' (IIA) 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, and the Definition of Internal Auditing. The Director of Internal Audit will report periodically to the THEC/TSAC Executive Director, Internal Audit Committee and the State of Tennessee's Executive Internal Auditor (EIA) regarding the internal audit department's conformance to the Code of Ethics and the *Standards*.

Additionally, the internal audit department will also incorporate aspects of the Government Accountability Office's *Generally Accepted Government Audit Standards* (GAGAS) and the Association of Certified Fraud Examiners (ACFE) Code of Professional Ethics and Code of Professional Standards.

**Authority**

The IAD will report functionally to the audit committee and administratively (i.e., day-to-day operations) to the THEC/TSAC Executive Director. To establish, maintain, and assure that THEC/TSAC's internal audit activity has sufficient authority to fulfill its duties, the audit

Tennessee Higher Education Commission  
Tennessee Student Assistance Corporation  
Internal Audit Charter

committee will:

- Review and provide comments on the internal audit activity's charter.
- Approve the risk-based internal audit plan.
- Receive communications from the IAD on the internal audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the IAD to determine whether there is inappropriate scope or resource limitations.

As part of the State's Executive Internal Auditor (EIA) initiative, the IAD will:

- Submit the internal audit charter to the EIA.
- Annually submit an audit plan approved by the THEC/TSAC Audit Committee to the EIA.
- Quarterly provide updates to the EIA.
- Participate in the EIA roundtable meetings and other activities as needed.

The THEC/TSAC Executive Director and the EIA will approve decisions regarding the appointment and removal of the IAD.

Performance goals developed by the EIA will be incorporated into the evaluation of the IAD.

The IAD will have unrestricted access to, and communicate and interact directly with, the audit committee and/or the EIA, including in private meetings without management present.

The audit committee and the EIA authorize the internal audit department 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.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of THEC/TSAC, as well as other specialized services from within or outside THEC/TSAC, in order to complete the engagement.

Tennessee Higher Education Commission  
Tennessee Student Assistance Corporation  
Internal Audit Charter

**Independence and Objectivity**

The IAD will ensure that the internal audit activity remains free from all conditions that threaten the ability of the IAD to carry out his or her responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the IAD determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

The IAD will maintain an unbiased mental attitude that allows him or her to perform engagements objectively and in such a manner that the IAD believes in the work product, that no quality compromises are made, and that the IAD does not subordinate their judgment on audit matters to others.

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

- Assessing specific operations for which the IAD had responsibility within the previous year.
- Performing any operational duties for THEC/TSAC or its affiliates.
- Initiating or approving transactions external to the internal audit activity.
- Directing the activities of any THEC/TSAC employee not employed by the internal audit activity, except to the extent that such employees have been appropriately assigned to otherwise assist the IAD.

Where the IAD 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. The IAD 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.

Tennessee Higher Education Commission  
Tennessee Student Assistance Corporation  
Internal Audit Charter

The IAD will confirm to the audit committee, at least annually, the organizational independence of the internal audit activity.

The IAD will disclose to the audit committee and EIA 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, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for THEC/TSAC. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of THEC/TSAC's strategic objectives are appropriately identified and managed.
- The actions of THEC/TSAC's officers, directors, employees, and contractors are in compliance with THEC/TSAC'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 THEC/TSAC.
- 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 IAD will report periodically to senior management and the audit committee regarding:

- The internal audit department's purpose, authority, and responsibility.
- The internal audit department's plan and performance relative to its plan.
- The internal audit department's conformance with The IIA's Code of Ethics and *Standards*,

Tennessee Higher Education Commission  
Tennessee Student Assistance Corporation  
Internal Audit Charter

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 EIA.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to THEC/TSAC.

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

- Prepare and discuss with the Executive Director a risk-based audit plan for the upcoming fiscal year.
- Submit the audit plan to the audit committee for review and approval.
- Submit the audit plan approved by the audit committee to the EIA for review and approval. Minor, non-substantive changes requested by the EIA can be made without formal approval of the audit committee. The audit committee should be informed of any such revisions. If there are substantive changes requested by the EIA, the audit committee will have to review and formally vote on such changes. Submit approved plan to the Comptroller of the Treasury.
- Communicate to the Executive Director and the audit committee the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in THEC/TSAC's business, risks, operations, programs, systems, and controls.
- Communicate to senior management, the audit committee, and the EIA any significant interim changes to the internal audit plan.

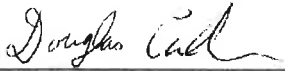
Tennessee Higher Education Commission  
Tennessee Student Assistance Corporation  
Internal Audit Charter

- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, 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 audit committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity 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 THEC/TSAC are considered and communicated to senior management and the audit committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to THEC/TSAC'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 audit committee.
- Ensure conformance of the internal audit activity with the IIA Standards, with the following qualifications:
  - If the internal audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, the IAD 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 IAD will ensure that the internal audit activity conforms with the Standards, even if the internal audit activity also conforms with the more restrictive requirements of other authoritative bodies.
  - Some aspects of the Standards may not be possible or applicable because there is only one internal auditor for THEC/TSAC. This will be noted in the workpapers. This would include supervision of other auditors and workpaper review.

## Quality Assurance and Improvement Program

- Maintain a quality and assurance improvement program, consistent with the Standards promulgated by The Institute of Internal Auditors to ensure the effectiveness and quality of the internal audit effort.
- The Director of Internal Audit will periodically report the results of its quality assurance and improvement program to the Executive Director and the Internal Audit Committee members and obtain an external assessment of the activity at least once every five years.

Approved this 28<sup>th</sup> day of January, 2022:



Douglas Cullum, Director-Internal Audit



Pam Koban, Chair- Internal Audit Committee



Emily House, Executive Director



Lawrence Hall, Executive Internal Auditor