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**Subject: Charter for the Office of Audit, Risk, and Compliance**

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## **1. Purpose**

This policy outlines the policies and procedures covering the Office of Audit, Risk, and Compliance (OARC) at Virginia Polytechnic Institute and State University and serves as a charter for the department.

## **2. Policy**

It is the policy of the Compliance, Audit, and Risk Committee of the Board of Visitors and the management of Virginia Polytechnic Institute and State University to support the maintenance of an internal audit function to assist in the effective discharge of their fiduciary responsibilities in assessing the effectiveness internal control environment.

The Office of Audit, Risk and Compliance (OARC) performs independent internal audits, plans and oversees the university risk management process, and oversees the institutional compliance program. The OARC's mission is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight as follows:

1. *Audit*: Provide independent, objective assurance and advisory activity designed to add value and improve university operations. It helps the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. *Risk Management*: Provide oversight of the enterprise risk management (ERM) program by creating and maintain the framework to effectively identify, assess, and manage risk.
3. *Compliance*: Provide oversight of the institutional compliance program and the distributed processes that support compliance across the university.

### **2.1 Scope of the Office of Audit, Risk, and Compliance**

The scope of OARC work is to determine whether Virginia Tech's risk management, internal controls, compliance activities and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Programs, plans, and strategic objectives are achieved.
- Risks are appropriately identified, managed, and considered in institutional decision making.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Compliance with policies, procedures, standards, laws, and regulations.
- Measures taken to foster continuous improvement in control processes.
- Resources are being acquired, managed, and protected in an economical, efficient, and effective manner.

## 2.2 Independence and Objectivity

Independence is essential to enable the internal audit function to accomplish its purpose. Accordingly, the Executive Director of Audit, Risk, and Compliance reports functionally to the committee and also serves in a staff role to the committee. For day-to-day operations, the Executive Director of Audit, Risk, and Compliance reports administratively to the President. These reporting relationships allow for direct and unrestricted access to the President and the Compliance, Audit, and Risk Committee of the Board of Visitors.

All work will be conducted in an objective and independent manner. Staff will maintain an impartial attitude in selecting and evaluating evidence and in reporting results. Independence in fact and appearance enables unbiased judgments that are essential to the proper conduct of the department's scope of work. OARC staff have the responsibility to maintain high standards of conduct, professionalism, independence, and character to carry on proper and meaningful internal auditing within the university.

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 would normally be audited. Therefore, internal audit review and appraisal procedures do not in any way substitute for the responsibilities assigned to other persons in the organization.

## 2.3 Authority

OARC has unrestricted access to all university departments, records, reports, activities, property, and personnel that they deem necessary to discharge their audit responsibilities. OARC will exercise discretion in the review of records to assure the necessary confidentiality of matters that come to its attention.

OARC will allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports. OARC will also obtain assistance for specialized services from within or outside the university in order to complete engagements.

## 2.4 Auditing Standards

The internal audit function will conduct its activities in accordance with the Institute of Internal Auditors' International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing, Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. Generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and government auditing standards issued by the United States Government Accountability Office will be referenced as appropriate.

## 2.5 Systems Planning and Development

OARC will be consulted by management during the planning, development, and modification of major financial or operating systems and procedures (manual and automated) to ensure that:

- Reasonable and adequate internal controls exist.
- Systems or procedural documentation is complete and appropriate.
- An adequate audit trail exists.

OARC's participation will be designed to: a) help assure that information assets are safeguarded and appropriate procedures are complied with, and b) aid management efficiency by avoiding costly systems or procedural changes at later dates.

## **2.6 Responsibilities of the Executive Director of Audit, Risk, and Compliance**

The Executive Director of Audit, Risk, and Compliance has primary responsibility for the proper maintenance and management of OARC to ensure that the work fulfills the purposes and responsibilities established in this policy statement. The Executive Director of Audit, Risk, and Compliance is specifically charged with the following responsibilities:

- Coordinating all auditing activities to provide a central source of information for management and the Compliance, Audit, and Risk Committee of the Board of Visitors regarding all audit activities and to provide comprehensive, cost-effective audit coverage for the university.
- Facilitating the university's efforts regarding enterprise risk management (ERM) on behalf of senior management and the Compliance, Audit, and Risk Committee of the Board of Visitors.
- Coordinating the university's Institutional Compliance Program to be a resource and serve as a catalyst for the achievement of university best practices in compliance-related subject matter areas.
- Establishing written policies and procedures for OARC and directing its technical and administrative functions.
- Developing, submitting for approval, and executing comprehensive risk-based annual audit plans to carry out departmental responsibilities.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter, and provide information on the sufficiency of department resources.
- Recommending improvements in controls designed to increase efficiency, safeguard university resources, and ensure compliance with government laws and regulations.
- Issuing an annual summary report of activities to the Compliance, Audit, and Risk Committee of the Board of Visitors.
- Appraising the adequacy of the action taken by management to correct significant reported internal control weaknesses and deficient conditions and reporting this information at least quarterly to the responsible Vice Presidents and the university's Chief Financial Officer, or their designees.
- Establishing and maintaining a Quality Assurance and Improvement Program to evaluate the operations of the department, including periodic internal self-assessments and external peer reviews at least once every five years by qualified persons who are independent of the university. Results of such reviews will be presented to senior management and the Board of Visitors.
- Communicating directly with the Compliance, Audit, and Risk Committee of the Board of Visitors any matters considered to warrant its attention as appropriate, including trends and emerging issues that could impact the university.
- Performing sufficient tests and examinations to determine and report to management, the Compliance, Audit, and Risk Committee of the Board of Visitors, and the appropriate authorities the extent of any fraud, waste, and abuse detected by audit or otherwise and to identify the weaknesses in control procedures that may have allowed the fraudulent activity to occur. The investigation of the specific event with the objective or recovery and/or prosecution is the responsibility of the appropriate police departments and Commonwealth's Attorney based on jurisdiction.

## **2.7 Audit Reports**

OARC will issue audit reports and/or memorandums in all audit activities performed. The format and style of the report will be determined by the Executive Director of Audit, Risk, and Compliance, depending upon the nature and

conditions surrounding the audit. Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. The formulation of overall opinions requires consideration of the engagement results and their significance. All reports on engagements scheduled in the annual audit plan will be issued to the members of the Compliance, Audit, and Risk Committee of the Board of Visitors, the President, appropriate senior management, and other appropriate personnel as deemed necessary by the Executive Director of Audit, Risk, and Compliance. In addition, reports approved at open meetings of the committee shall be made available to the public in accordance with state statutes. In certain circumstances, the Executive Director of Audit, Risk, and Compliance may decide, with the approval of the Chair of the Compliance, Audit, and Risk Committee of the Board of Visitors, to restrict the issuance of an audit report to certain members of management and/or the committee.

## **2.8 Responsibility for Corrective Action**

Senior management to whom the audited department, activity, or agency reports organizationally is responsible for the issuance of a written response to recommendations made or deficient conditions reported by the internal audit function. The responses should be submitted to the Executive Director of Audit, Risk, and Compliance for inclusion in the issued audit report. The committee will receive quarterly status updates of all recommendations in the process of being implemented.

## **2.9 Coordination with External Auditing Agencies**

The Executive Director of Audit, Risk, and Compliance will coordinate the department's audit efforts with those of the Auditor of Public Accounts or other external auditing agencies by participating in the planning and definition of the scope of proposed audits so the work of all auditing groups is complementary, and their combined efforts provide comprehensive, cost-effective audit coverage for the university. Duplication of work will be avoided as much as possible.

## **2.10 Special Projects**

The Executive Director of Audit, Risk, and Compliance is empowered to conduct special audit projects, reviews, advisory services, or investigations at the request of the President, Vice Presidents or their designee, and the Compliance, Audit, and Risk Committee of the Board of Visitors to assist management in meeting its objectives, promoting economy and efficiency in the administration of, or preventing and detecting fraud, waste, and abuse in its programs and operations, examples of which may include facilitation, training, and advisory services.

## **3. Procedures**

Principal guidance and direction on how the OARC accomplishes its mission and responsibilities is provided to the audit staff through an office procedures manual. The manual is designed to promote adherence to the International Professional Practice Framework developed by the Institute of Internal Auditors. The manual also provides a resource to external parties such as the Compliance, Audit, and Risk Committee of the Board of Visitors, senior management, external auditors, and quality assurance parties.

## **4. Definitions**

### **Abuse**

Excessive or improper use of a thing or policy, or employment of something in a manner contrary to the natural or legal rules for its use. Intentional destruction, diversion, manipulation, misapplication, mistreatment, or misuse of Commonwealth resources. Extravagant or excessive use as to abuse one's position or authority. Abuse can occur in financial or nonfinancial settings.

### **Add Value**

The internal audit function adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

### **Advisory Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

### **Assurance**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

### **Charter**

The charter is a formal document that defines the OARC's purpose, authority, and responsibility. The charter establishes the office's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

### **Code of Ethics**

The Code of Ethics of The Institute of Internal Auditors are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

### **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

### **Conflict of Interest**

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

### **Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control (e.g. integrity and ethical values; management's philosophy and operating style; organizational structure; and the assignment of authority and responsibility).

### **Control Processes**

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

### **Executive Director of Audit, Risk, and Compliance**

The individual that serves as the chief audit executive and is responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the IIA's Definition of Internal Auditing, the Core Principles, the Code of Ethics, and the *Standards*.

### **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### **Enterprise Risk Management**

A process applied in strategy-setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risk to be within the entity's risk tolerance, and support the achievement of entity objectives.

### **Fraud**

The intentional deception perpetrated by an individual or individuals, or an organization or organizations, either internal or external to the university, which could result in a tangible or intangible benefit to themselves, others, or the Commonwealth or could cause detriment to others or the Commonwealth. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive.

### **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. The governance process includes: promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; communicating risk and control information to appropriate areas of the organization; and coordinating the activities of and communicating information among the board, external and internal auditors, and management.

### **Independence**

The freedom from conditions that threaten the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

### **Internal Audit Function**

The department, division, team of advisors, or other practitioner(s) that provides independent, objective assurance and advisory services designed to add value and improve an organization's operations.

### **International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by the Institute of Internal Auditors. Authoritative guidance is comprised of two categories – (1) mandatory and (2) strongly recommended.

### **Objectivity**

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

### **Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

### **Risk Management**

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

### **Scope**

A statement that specifies the focus, extent, and boundary of a particular audit. The scope can be specified by defining the physical location of the audit, the organizational units that will be examined, the processes and activities that will be included, and the time period that will be covered.

### **Significance**

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

### **Standards**

A professional pronouncement that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

### **Waste**

The intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of Commonwealth resources to the detriment or potential detriment of the Commonwealth. Waste also includes incurring unnecessary costs due to inefficient or ineffective practices, systems, or controls.

## **5. References**

Section 2.1-155.3 of the *Code of Virginia*, enacted in 1984.

*State Fraud, Waste, and Abuse Hotline Policies and Procedures Manual*, Office of the State Inspector General, Commonwealth of Virginia, 2014 edition.

The Institute of Internal Auditors' 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, revised in 2016 and effective 2017.

## **6. Approval and Revisions**

- Revision 0  
Approved February 9, 1989, by the Director of Internal Audit, David C. Goodyear.
- Revision 1  
Annual review. Section 2.8 - changed so that reports "approved" by the Finance and Audit Committee of the Board of Visitors shall be available to the public.  
Approved March 29, 1990, by the Director of Internal Audit, David C. Goodyear.

- **Revision 2**  
Changes were made to eliminate minor discrepancies between the audit manual and the policy statement as presented to the Board of Visitors.  
  
Approved November 3, 1995, by the Director of Internal Audit, David C. Goodyear.
- **Annual review, November 5, 1998, by Office of the Executive Vice President. No revisions.**
- **Revision 3**  
Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors. Policy serves as a charter for the Internal Audit Department.  
  
Approved March 29, 2004 by the Executive Vice President and Chief Operating Officer, Minnis E. Ridenour.  
  
Approved March 29, 2004 by the Finance and Audit Committee of the Board of Visitors.
- **Revision 4**  
Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors, in conjunction with the Internal Audit Department's quality assurance review.  
  
Approved March 14, 2005 by the Executive Vice President and Chief Operating Officer, James A. Hyatt.  
  
Approved March 14, 2005 by the Finance and Audit Committee of the Board of Visitors.
- **Revision 5**  
April 1, 2008: Updates to position titles and/or responsibilities due to university reorganization.
- **Revision 6**  
Policy title changed from "Internal Audit Department" to "Internal Audit Charter."  
  
Section 2.2 revised to reflect change in Director of Internal Audit reporting relationship.  
  
Sections 2.5 and 2.7 revised to clarify the role of Internal Audit and the standards under which it conducts its activities.  
  
Section 2.9 revised to clarify the process for senior management areas submitting corrective action plans.  
  
Approved November 7, 2011 by the university President, Charles W. Steger.  
  
Approved November 7, 2011 by the Finance and Audit Committee of the Board of Visitors.
- **Revision 7**  
Full technical review correcting grammatical, punctuation, word usage, sentence structure, and minor content and/or format inconsistencies. The charter was also revised to incorporate the concept of objectivity, and to include applicable procedures and definitions.  
  
Policy title changed from "Internal Audit Charter" to "Charter for the University's Internal Audit Function."  
  
Approved November 9, 2015 by the Finance and Audit Committee of the Board of Visitors and President, Timothy D. Sands.

- Revision 8  
Revised to address the reorganization of the Board of Visitors' committee structure and additional responsibilities with regard to risk management and compliance. Additional revisions were made to reflect revised guidance from the Institute of Internal Auditors.

Approved November 5, 2017 by the Compliance, Audit, and Risk Committee of the Board of Visitors and President, Timothy D. Sands.

Subject: Charter for the ~~University's Internal~~Office of Audit-Function, Risk, and Compliance

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## 1. Purpose

This policy outlines the policies and procedures covering ~~University Internal~~the Office of Audit, Risk, and Compliance (OARC) at Virginia Polytechnic Institute and State University and serves as a charter for the department.

## 2. Policy

It is the policy of the ~~Finance~~Compliance, Audit, and ~~Audit~~Risk Committee of the Board of Visitors and the management of Virginia Polytechnic Institute and State University to support the maintenance of an internal audit function to assist in the effective discharge of their fiduciary responsibilities in assessing the effectiveness internal control environment.

The ~~Finance and~~ Office of Audit ~~Committee of the Board of Visitors~~, Risk and Compliance (OARC) performs independent internal audits, plans and oversees the university risk management ~~adopt~~ process, and oversees the following definition of internal auditing (from the Institute of Internal Auditors' International Professional Practices Framework) as the purpose of the internal audit function: Internal auditing institutional compliance program. The OARC's mission is ~~an~~ to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight as follows:

1. Audit: Provide independent, objective assurance and advisory activity designed to add value and improve ~~an~~ organization's university operations. It helps ~~an organization~~ the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
2. Risk Management: Provide oversight of the enterprise risk management (ERM) program by creating and maintain the framework to effectively identify, assess, and manage risk.
3. Compliance: Provide oversight of the institutional compliance program and the distributed processes that support compliance across the university.

## 2.1 Scope of ~~Internal~~ the Office of Audit ~~Activities, Risk, and Compliance~~

~~The internal audit function will provide assurance engagements encompassing reviews of all university operations and activities to appraise:~~

~~The accuracy, reliability, and timeliness of significant~~ The scope of OARC work is to determine whether Virginia Tech's risk management, internal controls, compliance activities and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Programs, plans, and strategic objectives are achieved.
- Risks are appropriately identified, managed, and considered in institutional decision making.
- Significant financial, managerial, and operating information ~~and the adequacy of the internal controls employed over the compilation and reporting of such information~~ is accurate, reliable and timely.
- Compliance with policies, procedures, standards, laws, and regulations.
- ~~Whether risks are appropriately identified and managed.~~
- ~~Measures taken to safeguard assets, including tests of existence and ownership.~~
- ~~The adequacy, propriety, and cost-effectiveness of accounting, financial, and other controls throughout the university, as well as compliance therewith.~~
- Measures taken to foster continuous improvement in control processes.
- ~~Whether university resources~~ Resources are being acquired, managed, and protected in an economical, efficient, and effective manner.
- ~~The achievement of programs, plans, and objectives.~~

## 2.2 ~~Organizational Structure~~

~~The Finance and Audit Committee of the Board of Visitors has the responsibility to oversee and evaluate the internal audit function of the university. Accordingly, the Director of Internal Audit reports functionally to the committee and also serves in a staff role to the committee. For day-to-day operations, the Director of Internal Audit reports administratively to the President.~~

## 2.3 ~~2.2~~ Independence and Objectivity

Independence is essential to enable the internal audit function to accomplish its purpose. Accordingly, the Executive Director of Internal Audit ~~has~~, Risk, and Compliance reports functionally to the committee and also serves in a staff role to the committee. For day-to-day operations, the Executive Director of Audit, Risk, and Compliance reports

~~administratively to the President. These reporting relationships allow for~~ direct and unrestricted access to the President and the ~~Finance~~Compliance, Audit, and Audit Risk Committee of the Board of Visitors. ~~The internal audit function shall be functionally independent of all university operations.~~

~~The Director of Internal Audit or members of the department must have an impartial, unbiased attitude and avoid any conflict of interest. Members of the internal audit function shall not be assigned to operating duties except for temporary assignments as requested by the President and the university's Chief Financial Officer and approved by the Finance and Audit Committee of the Board of Visitors. In addition, members of the internal audit function will not develop and install procedures, prepare records, make management decisions, or engage in any other activity which could be reasonably construed to compromise their independence. The Director of Internal Audit or members of the department shall not be assigned any additional supervisory or oversight responsibilities which could be reasonably construed to compromise their independence. All work will be conducted in an objective and independent manner. Staff will maintain an impartial attitude in selecting and evaluating evidence and in reporting results. Independence in fact and appearance enables unbiased judgments that are essential to the proper conduct of the department's scope of work. OARC staff have the responsibility to maintain high standards of conduct, professionalism, independence, and character to carry on proper and meaningful internal auditing within the university.~~

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 would normally be audited. Therefore, internal audit review and appraisal procedures do not in any way substitute for the responsibilities assigned to other persons in the organization.

### **2.42.3 Authority**

~~The internal audit function~~OARC has unrestricted access to all university departments, records, reports, activities, property, and personnel that they deem necessary to discharge their audit responsibilities. ~~The internal audit function~~OARC will exercise discretion in the review of records to assure the necessary confidentiality of matters that come to its attention.

OARC will allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports. OARC will also obtain assistance for specialized services from within or outside the university in order to complete engagements.

### **2.52.4 Auditing Standards**

The internal audit function will conduct its activities in accordance with the Institute of Internal ~~Auditors~~Auditors' International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing, Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and ~~Code of Ethics~~the Definition of Internal Auditing. Generally accepted auditing standards promulgated by the American Institute of Certified Public Accountants and government auditing standards issued by the United States Government Accountability Office will be referenced as appropriate.

~~Members of the internal audit function have the responsibility to maintain high standards of conduct, professionalism, independence, and character to carry on proper and meaningful internal auditing within the university. In addition, the internal audit function's activities and conduct shall be consistent with the policies of the university.~~

### **2.62.5 Systems Planning and Development**

~~The internal audit function~~OARC will be consulted by management during the planning, development, and modification of major financial or operating systems and procedures (manual and automated) to ensure that:

- Reasonable and adequate internal controls exist.
- Systems or procedural documentation is complete and appropriate.
- An adequate audit trail exists.

~~The internal audit function's~~OARC's participation will be designed to: a) help assure that information assets are safeguarded and appropriate procedures are complied with, and b) aid management efficiency by avoiding costly systems or procedural changes at later dates.

## **2.72.6 Responsibilities of the Executive Director of Internal-Audit, Risk, and Compliance**

The Executive Director of ~~Internal-Audit, Risk, and Compliance~~ has primary responsibility for the proper maintenance and management of ~~the internal audit function~~OARC to ensure that the ~~audit~~ work fulfills the purposes and responsibilities established in this policy statement.

The Executive Director of ~~Internal-Audit, Risk, and Compliance~~ is specifically charged with the following responsibilities:

- Coordinating all auditing activities to provide a central source of information for management and the ~~Finance~~Compliance, Audit, and ~~Audit~~Risk Committee of the Board of Visitors regarding all audit activities and to provide comprehensive, cost-effective audit coverage for the university.
- ~~Going beyond accounting and financial records when necessary during audit activities to obtain a thorough understanding of the activities under audit.~~
- Facilitating the university's efforts regarding enterprise risk management (ERM) on behalf of senior management and the Compliance, Audit, and Risk Committee of the Board of Visitors.
- Coordinating the university's Institutional Compliance Program to be a resource and serve as a catalyst for the achievement of university best practices in compliance-related subject matter areas.
- Establishing written policies and procedures for ~~the internal audit function~~OARC and directing its technical and administrative functions.
- Developing, submitting for approval, and executing comprehensive risk-based annual ~~and long range~~ audit plans to carry out departmental responsibilities.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter, and provide information on the sufficiency of department resources.
- ~~Documenting appropriately the results of all audits, reviews, and evaluations performed.~~
- Recommending improvements in controls designed to increase efficiency, safeguard university resources, and ensure compliance with government laws and regulations.
- Issuing an annual summary report of ~~audit~~ activities to the ~~Finance and~~Compliance, Audit, and Risk Committee of the Board of Visitors.
- Appraising the adequacy of the action taken by management to correct significant reported internal control weaknesses and deficient conditions and reporting this information at least quarterly to the responsible Vice Presidents and the university's Chief Financial Officer, or their designees.
- Establishing and maintaining a ~~quality assurance review program~~Quality Assurance and Improvement Program to evaluate the operations of the department, including periodic internal self-assessments and external peer reviews at least once every five years by qualified persons who are independent of the university. Results of such reviews will be presented to senior management and the Board of Visitors.
- Communicating directly with the ~~Finance~~Compliance, Audit, and ~~Audit~~Risk Committee of the Board of Visitors any matters considered to warrant its attention as appropriate, including trends and emerging issues that could impact the university.

- Performing sufficient tests and examinations to determine and report to management, the ~~Finance and Compliance~~, Audit, and Risk Committee of the Board of Visitors, and the appropriate authorities the extent of any fraud, waste, and abuse detected by audit or otherwise and to identify the weaknesses in control procedures that may have allowed the fraudulent activity to occur. The investigation of the specific event with the objective or recovery and/or prosecution is the responsibility of the appropriate police departments and Commonwealth's Attorney based on jurisdiction.

### **2.82.7 Audit Reports**

The ~~internal audit function~~OARC will issue audit reports and/or memorandums in all audit activities performed. The format and style of the report will be determined by the Executive Director of ~~Internal-Audit, Risk, and Compliance~~, depending upon the nature and conditions surrounding the audit. Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. The formulation of overall opinions requires consideration of the engagement results and their significance. All reports on engagements scheduled in the annual audit plan will be issued to the members of the ~~Finance Compliance, Audit, and Audit Risk~~ Committee of the Board of Visitors, the President, appropriate senior management, and other appropriate personnel as deemed necessary by the Executive Director of ~~Internal-Audit, Risk, and Compliance~~. In addition, reports approved at open meetings of the committee shall be made available to the public in accordance with state statutes. In certain circumstances, the Executive Director of ~~Internal-Audit, Risk, and Compliance~~ may decide, with the approval of the Chair of the ~~Finance and Compliance~~, Audit, and Risk Committee of the Board of Visitors, to restrict the issuance of an audit report to certain members of management and/or the committee.

### **2.92.8 Responsibility for Corrective Action**

Senior management to whom the audited department, activity, or agency reports organizationally is responsible for the issuance of a written response to recommendations made or deficient conditions reported by the internal audit function. The responses should be submitted to the Executive Director of ~~Internal-Audit, Risk, and Compliance~~ for inclusion in the issued audit report. The committee will receive quarterly status updates of all recommendations in the process of being implemented.

### **2.102.9 Coordination with External Auditing Agencies**

The Executive Director of ~~Internal-Audit, Risk, and Compliance~~ will coordinate the department's audit efforts with those of the Auditor of Public Accounts or other external auditing agencies by participating in the planning and definition of the scope of proposed audits so the work of all auditing groups is complementary, and their combined efforts provide comprehensive, cost-effective audit coverage for the university. Duplication of work will be avoided as much as possible.

### **2.112.10 Special Projects**

The Executive Director of ~~Internal-Audit, Risk, and Compliance~~ is empowered to conduct special audit projects, reviews, advisory services, or investigations at the request of the President, Vice Presidents or their designee, and the ~~Finance Compliance, Audit, and Audit Risk~~ Committee of the Board of Visitors to assist management in meeting its objectives, promoting economy and efficiency in the administration of, or preventing and detecting fraud, waste, and abuse in its programs and operations, examples of which may include facilitation, training, and advisory services.

## **3. Procedures**

Principal guidance and direction on how the ~~internal audit function~~OARC accomplishes its mission and responsibilities is provided to the audit staff through ~~the Virginia Tech Internal Audit Manual (Manual)-an office procedures manual~~. The ~~Manual~~manual is designed to promote adherence to the International Professional Practice Framework developed by the Institute of Internal Auditors. The ~~Manual~~manual also provides a resource to external

parties such as the ~~Finance~~Compliance, Audit, and Audit Risk Committee of the Board of Visitors, senior management, external auditors, and quality assurance parties.

## 4. Definitions

### **Abuse**

Excessive or improper use of a thing or policy, or employment of something in a manner contrary to the natural or legal rules for its use. Intentional destruction, diversion, manipulation, misapplication, mistreatment, or misuse of Commonwealth resources. Extravagant or excessive use as to abuse one's position or authority. Abuse can occur in financial or nonfinancial settings.

### **Add Value**

The internal audit function adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

### **Advisory Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

### **Assurance**

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

### **Charter**

The ~~internal audit~~ charter is a formal document that defines the ~~internal audit function's~~OARC's purpose, authority, and responsibility. The ~~internal audit~~ charter establishes the ~~internal audit function's~~office's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

### **Code of Ethics**

The Code of Ethics of The Institute of Internal Auditors are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

### **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

### **Conflict of Interest**

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

### **Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### **Control Environment**

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control (e.g. integrity and ethical values; management's philosophy and operating style; organizational structure; and the assignment of authority and responsibility).

### **Control Processes**

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

### **Executive Director of ~~Internal~~ Audit, Risk, and Compliance**

The individual that serves as the chief audit executive and is responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the IIA's Definition of Internal Auditing, the Core Principles, the Code of Ethics, and the *Standards*.

### **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

### **Enterprise Risk Management**

A process applied in strategy-setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risk to be within the entity's risk tolerance, and support the achievement of entity objectives.

### **Fraud**

The intentional deception perpetrated by an individual or individuals, or an organization or organizations, either internal or external to the university, which could result in a tangible or intangible benefit to themselves, others, or the Commonwealth or could cause detriment to others or the Commonwealth. Fraud includes a false representation of a matter of fact, whether by words or by conduct, by false or misleading statements, or by concealment of that which should have been disclosed, which deceives and is intended to deceive.

### **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives. The governance process includes: promoting appropriate ethics and values within the organization; ensuring effective organizational performance management and accountability; communicating risk and control information to appropriate areas of the organization; and coordinating the activities of and communicating information among the board, external and internal auditors, and management.

### **Independence**

The freedom from conditions that threaten the ability of the internal audit function to carry out internal audit responsibilities in an unbiased manner.

### **Internal Audit Function**

The department, division, team of advisors, or other practitioner(s) that provides independent, objective assurance and advisory services designed to add value and improve an organization's operations.

### **International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by the Institute of Internal Auditors. Authoritative guidance is comprised of two categories – (1) mandatory and (2) strongly recommended.

### Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

### Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

### Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

### Scope

A statement that specifies the focus, extent, and boundary of a particular audit. The scope can be specified by defining the physical location of the audit, the organizational units that will be examined, the processes and activities that will be included, and the time period that will be covered.

### Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

### Standards

A professional pronouncement that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

### Waste

The intentional or unintentional, thoughtless or careless expenditure, consumption, mismanagement, use, or squandering of Commonwealth resources to the detriment or potential detriment of the Commonwealth. Waste also includes incurring unnecessary costs due to inefficient or ineffective practices, systems, or controls.

## 5. References

Section 2.1-155.3 of the *Code of Virginia*, enacted in 1984.

*State Fraud, Waste, and Abuse Hotline Policies and Procedures Manual*, Office of the State Inspector General, Commonwealth of Virginia, 2014 edition.

[The Institute of Internal Auditors' 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 \(Standards\), ~~The Institute and the Definition of Internal Auditors, issued in 2008~~ Auditing](#), revised in ~~2012~~.

~~Code of Ethics, The Institute of Internal Auditors~~ [2016 and effective 2017](#).

## 6. Approval and Revisions

- Revision 0  
Approved February 9, 1989, by the Director of Internal Audit, David C. Goodyear.

- Revision 1  
Annual review. Section 2.8 - changed so that reports "approved" by the Finance and Audit Committee of the Board of Visitors shall be available to the public.  
Approved March 29, 1990, by the Director of Internal Audit, David C. Goodyear.
- Revision 2  
Changes were made to eliminate minor discrepancies between the audit manual and the policy statement as presented to the Board of Visitors.  
  
Approved November 3, 1995, by the Director of Internal Audit, David C. Goodyear.
- Annual review, November 5, 1998, by Office of the Executive Vice President. No revisions.
- Revision 3  
Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors. Policy serves as a charter for the Internal Audit Department.  
  
Approved March 29, 2004 by the Executive Vice President and Chief Operating Officer, Minnis E. Ridenour.  
  
Approved March 29, 2004 by the Finance and Audit Committee of the Board of Visitors.
- Revision 4  
Policy updated to reflect review by the Finance and Audit Committee of the Board of Visitors, in conjunction with the Internal Audit Department's quality assurance review.  
  
Approved March 14, 2005 by the Executive Vice President and Chief Operating Officer, James A. Hyatt.  
  
Approved March 14, 2005 by the Finance and Audit Committee of the Board of Visitors.
- Revision 5  
April 1, 2008: Updates to position titles and/or responsibilities due to university reorganization.
- Revision 6  
Policy title changed from "Internal Audit Department" to "Internal Audit Charter."  
  
Section 2.2 revised to reflect change in Director of Internal Audit reporting relationship.  
  
Sections 2.5 and 2.7 revised to clarify the role of Internal Audit and the standards under which it conducts its activities.  
  
Section 2.9 revised to clarify the process for senior management areas submitting corrective action plans.  
  
Approved November 7, 2011 by the university President, Charles W. Steger.  
  
Approved November 7, 2011 by the Finance and Audit Committee of the Board of Visitors.
- Revision 7

Virginia Polytechnic Institute and State University

Revision: ~~7~~8  
~~2015~~, 2017

Full technical review correcting grammatical, punctuation, word usage, sentence structure, and minor content and/or format inconsistencies. The charter was also revised to incorporate the concept of objectivity, and to include applicable procedures and definitions.

Policy title changed from “Internal Audit Charter” to “Charter for the University’s Internal Audit Function.”

Approved November 9, 2015 by the Finance and Audit Committee of the Board of Visitors and President, Timothy D. Sands.

- [Revision 8](#)

[Revised to address the reorganization of the Board of Visitors’ committee structure and additional responsibilities with regard to risk management and compliance. Additional revisions were made to reflect revised guidance from the Institute of Internal Auditors.](#)

[Approved November 5, 2017 by the Compliance, Audit, and Risk Committee of the Board of Visitors and President, Timothy D. Sands.](#)

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY  
COMPLIANCE, AUDIT, AND RISK COMMITTEE OF THE BOARD OF VISITORS**

**COMPLIANCE, AUDIT, AND RISK CHARTER**

**I. PURPOSE**

The primary purpose of the Compliance, Audit, and Risk (CAR) Committee is to assist the Board of Visitors in fulfilling its fiduciary responsibilities related to oversight of:

- The university's enterprise risk management program, as an essential part of a strong control environment, to ensure that risk appetite aligns with management's decisions and strategy,
- Adherence to this charter, including reviewing audits conducted by the Office of Audit, Risk, and Compliance and external bodies and providing guidance on auditing concerns to the full Board,
- The university's compliance with all federal, state, and local laws and executive orders; and policies promulgated by academic and athletic accrediting bodies, regulatory agencies, funding agencies, and the State Council of Higher Education for Virginia,
- The maintenance of effective systems of internal control, including the integrity of the university's financial accounting and reporting practices, and
- The performance of the university's internal and independent audit functions.

The function of the Committee is oversight. University management is responsible for the preparation, presentation, and integrity of the university's financial statements, fiscal plans, and other financial reporting. University management is also responsible for maintaining appropriate financial accounting and reporting policies, procedures, and controls designed to assure compliance with generally accepted accounting principles and applicable laws and regulations. The Office of Audit, Risk, and Compliance examines and evaluates the adequacy and effectiveness of the university's internal control systems. The university's external auditor, the state Auditor of Public Accounts, is responsible for planning and conducting the financial statement examination in accordance with generally accepted government auditing standards.

This document and the related meeting planner are intended to identify and document the Committee's oversight responsibilities in order that such sound practices will continue despite the turnover of Committee members. It also outlines the regularly scheduled review activities that will ensure that the university continues to have an independent and objective internal audit function and obtains the greatest possible benefit from its external audits.

**II. MEETINGS**

By statute the Board of Visitors, including the CAR Committee, must meet once a year, but traditionally holds four meetings a year. Additional meetings may occur more frequently

as circumstances warrant. The Committee Chair should discuss the agenda with the Executive Director of Audit, Risk, and Compliance prior to each Committee meeting to finalize the meeting agenda and review the items to be discussed.

### **III. RESPONSIBILITIES**

In performing its audit oversight responsibilities, the CAR Committee shall:

#### **A. General**

1. Adopt a formal written charter that specifies the Committee's responsibilities and practices. The charter should be reviewed annually and updated as necessary.
2. Maintain minutes of meetings.
3. Authorize audits within the Committee's scope of responsibilities.
4. Report Committee actions to the Board of Visitors with such recommendations as the Committee may deem appropriate.
5. Meet in closed session, consistent with state law, (without members of senior management present, when appropriate) with the external auditors and/or the Executive Director of Audit, Risk, and Compliance to discuss matters that the Committee or the auditors believe should be discussed privately. The Executive Director of Audit, Risk, and Compliance shall have a regularly scheduled opportunity to meet privately with the Committee at each of its four annual meetings.

#### **B. Risk Management and Internal Control**

1. Review the university's enterprise risk management (ERM) efforts including the program structure and the processes for assessing significant risk exposures and the steps management has taken to monitor and control such exposures, as well as the university's risk assessment and risk management policies.
2. Consider the effectiveness of the university's internal control systems, including those over information technology and financial reporting.
3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses.
4. Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct the identified weaknesses in the internal control system.
5. Advise management that they are expected to provide a timely analysis of significant reporting issues and practices.

#### **C. External Auditors**

1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year.

2. As necessary, discuss with the external auditors their processes for identifying and responding to key audit and internal control risks.
3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks.
4. Meet with external auditors at the completion of the financial statements audit to receive and discuss the audit report(s), and determine whether external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles.
5. Review the results and organizational response stemming from significant reviews by regulatory agencies or other external entities (non-financial statement audits).

**D. Internal Auditors**

1. Approve the charter for the Office of Audit, Risk, and Compliance. The charter should be reviewed annually and updated as necessary.
2. Review and approve the annual audit plan and any significant changes to the plan.
3. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity and reporting relationships.
4. Review completed audit reports and progress reports on executing the approved annual audit plan.
5. Review the results of the Office of Audit, Risk, and Compliance's Quality Assurance and Improvement Program (QAIP), 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.
6. Inquire of the Executive Director of Audit, Risk, and Compliance regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information.
7. Review and concur in the appointment, replacement, reassignment, or dismissal of the Executive Director of Audit, Risk, and Compliance.
8. Evaluate the Executive Director of Audit, Risk, and Compliance's annual performance and make decisions regarding compensation.

**E. Compliance, Ethics, and Business Conduct**

1. Support leadership by promoting and supporting a university-wide culture of ethical and lawful conduct.
2. Require management to periodically report on procedures that provide assurance that the university's mission, values, and codes of conduct are properly communicated to all employees.

3. Review the programs and policies of the university designed by management to assure compliance with applicable laws and regulations and monitor the results of the compliance efforts.
4. Monitor the university's conflict of interest policies and related procedures.

The "CAR Agenda Meeting Planner" is an integral part of this document. If the Board of Visitors meets less frequently than anticipated, the Planner will be adjusted accordingly.

**Virginia Polytechnic Institute and State University  
Compliance, Audit, and Risk Committee of the Board of Visitors CAR  
Agenda Meeting Planner**

A=Annually; Q=Quarterly; AN=As Necessary Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)	Frequency			Planned Timing			
	A	Q	AN	Q1 Aug	Q2 Nov	Q3 Mar	Q4 Jun
<b>A. General</b>							
1. Review and update CAR Committee charter	X				X		
2. Approve and maintain minutes of previous meeting		X		X	X	X	X
3. Authorize audits within the Committee's scope of responsibilities			X				
4. Report Committee actions to the Board of Visitors with recommendations deemed appropriate		X		X	X	X	X
5. Meet in closed session with Executive Director of Audit, Risk, and Compliance, and with external auditors, as needed		X		X	X	X	X
<b>B. Risk Management and Internal Control</b>							
1. Review the university's ERM efforts including the program structure, processes, risk assessment, and risk management policies		X		X	X	X	X
2. Consider the effectiveness of the university's internal control systems			X				
3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses		X		X	X	X	X
4. Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct identified weaknesses in the internal control system		X		X	X	X	X
5. Advise management that they are expected to provide a timely analysis of significant current reporting issues and practices	X				X		
<b>C. External Auditors</b>							

1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year	X						X
2. Discuss with the external auditors their processes for identifying and responding to key audit and internal control risks			X		X	X	
3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks			X	X		X	
A=Annually; Q=Quarterly; AN=As Necessary	<b>Frequency</b>			<b>Planned Timing</b>			
Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)	<b>A</b>	<b>Q</b>	<b>AN</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
				Aug	Nov	Mar	Jun
4. Meet with external auditors at the completion of the financial statements audit to receive and discuss the audit report(s)	X				X		
5. Review results of other significant reviews from regulatory agencies or other external entities			X				
<b>D. Internal Auditors</b>							
1. Review and approve the charter for the Office of Audit, Risk, and Compliance, if changes are needed	X				X		
2. Review the draft annual audit plan	X						X
3. Approve the annual audit plan	X			X			
4. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity, and reporting relationships	X			X			
5. Review the results of the QAIP, including internal and external assessments			X				
6. Review completed audit reports and progress reports on executing the approved annual audit plan		X		X	X	X	X
7. Inquire of the Executive Director of Audit, Risk, and Compliance regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information		X		X	X	X	X
8. Review and concur in the appointment, replacement, reassignment, or dismissal of the Executive Director of Audit, Risk, and Compliance			X				
9. Evaluate the Executive Director of Audit, Risk, and Compliance's annual performance and make decisions regarding compensation	X			X			
<b>E. Compliance, Ethics, and Business Conduct</b>							
1. Convey commitment to ethical conduct through periodic receipt of management reports on how the university's mission, values, and codes of conduct are properly communicated to all employees			X				

2. Review the programs and policies of the university designed to assure and monitor compliance		X		X	X	X	X
3. Monitor the university's conflict of interest policies and related procedures		X		X	X	X	X

**VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY ~~FINANCE~~  
COMPLIANCE, AUDIT, AND AUDIT RISK COMMITTEE OF THE BOARD OF VISITORS**

**COMPLIANCE, AUDIT, AND RISK CHARTER**

**I. PURPOSE**

The primary purpose of the ~~Finance~~Compliance, Audit, and ~~Audit~~Risk (CAR) Committee is to assist the Board of Visitors in fulfilling its fiduciary responsibilities related to oversight of:

- ~~• The integrity of the university's financial accounting and reporting practices,~~
- The university's enterprise risk management program, as an essential part of a strong control environment, to ensure that risk appetite aligns with management's decisions and strategy,
- Adherence to this charter, including reviewing audits conducted by the Office of Audit, Risk, and Compliance and external bodies and providing guidance on auditing concerns to the full Board,
- The university's compliance with ~~legal and~~ all federal, state, and local laws and executive orders; and policies promulgated by academic and athletic accrediting bodies, regulatory requirements agencies, funding agencies, and the State Council of Higher Education for Virginia,
- ~~• Fiscal planning and the execution of fiscal plans,~~
- The maintenance of an effective ~~system~~ systems of internal ~~controls~~ control, including the integrity of the university's financial accounting and reporting practices, and
- The performance of the university's internal and independent audit functions.

The function of the Committee is oversight. University management is responsible for the preparation, presentation, and integrity of the university's financial statements, fiscal plans, and other financial reporting. University management is also responsible for maintaining appropriate financial accounting and reporting policies, procedures, and controls designed to assure compliance with generally accepted accounting principles and applicable laws and regulations. The ~~Department~~Office of ~~Internal~~Audit, Risk, and Compliance examines and evaluates the adequacy and effectiveness of the university's ~~system of~~ internal ~~controls~~control systems. The university's external auditor, the state Auditor of Public Accounts, is responsible for planning and conducting the financial statement examination in accordance with generally accepted government auditing standards.

~~The Committee is charged in the Bylaws of the Board of Visitors with separating its responsibilities for Finance and Audit, respectively, and with maintenance of a separate audit agenda and finance agenda for each meeting.~~ This document and the related meeting planner are intended to identify and document the Committee's ~~audit specific~~ oversight responsibilities in order that such sound practices will continue despite the turnover of Committee members. It also outlines the regularly scheduled review activities

that will ~~insure~~ensure that the university continues to have an independent and objective internal audit function and obtains the greatest possible benefit from its external audits.

## **II. ~~COMPOSITION AND INDEPENDENCE~~**

~~The Finance and Audit Committee will be comprised of three or more Visitors. Each committee member will be financially literate and shall fully comply with the State and Local Government Conflict of Interests Act, Section 2.2-3100 of the Code of Virginia as amended.~~

## **III. ~~MEETINGS~~**

By statute the Board of Visitors, including the ~~Finance and Audit~~CAR Committee, must meet once a year, but traditionally holds four meetings a year. Additional meetings may occur more frequently as circumstances warrant. The Committee Chair should discuss the ~~Audit~~ agenda with the Executive Director of ~~Internal~~-Audit, Risk, and ~~the university's Chief Financial Officer~~Compliance prior to each Committee meeting to finalize the meeting agenda and review the ~~issues~~items to be discussed.

## **IV~~III~~. RESPONSIBILITIES**

In performing its audit oversight responsibilities, the ~~Finance and Audit~~CAR Committee shall:

### **A. General**

1. Adopt a formal written charter that specifies the Committee's responsibilities and practices. The charter should be reviewed annually and updated as necessary.
2. Maintain minutes of meetings.
3. Authorize audits within the Committee's scope of responsibilities.
4. Report Committee actions to the Board of Visitors with such recommendations as the Committee may deem appropriate.
5. Meet in closed session, consistent with state law, (without members of senior management present, when appropriate) with the external auditors and/or the Executive Director of ~~Internal~~-Audit, Risk, and Compliance to discuss matters that the Committee or the auditors believe should be discussed privately. The Executive Director of ~~Internal~~-Audit, Risk, and Compliance shall have a regularly scheduled opportunity to meet privately with the Committee at each of its four annual meetings.

### **B. ~~Internal Controls, Risk Assessment, Management and Financial Reporting~~Internal Control**

1. Review the university's enterprise risk management (ERM) efforts including the program structure and the processes for assessing significant risk exposures and the steps management has taken to monitor and control such exposures, as well as the university's risk assessment and risk management policies.
- ~~1.2.~~ Consider the effectiveness of the university's internal control systems, including those over information technology and financial reporting.
- ~~2.~~ ~~Review the university's processes for assessing significant business risk exposures and the steps management has taken to monitor and control such exposures, including the university's risk assessment and risk management policies.~~
- ~~3.~~ Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses.
- ~~4.~~ ~~Review the annual financial statements with management and the external auditors to determine whether the external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles.~~
- ~~5.4.~~ Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct the identified weaknesses in the internal control system.
- ~~6.5.~~ Advise management that they are expected to provide a timely analysis of significant ~~financial~~ reporting issues and practices.

### C. External Auditors

1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year.
2. As necessary, discuss with the external auditors their processes for identifying and responding to key audit and internal control risks.
3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks.
4. Meet with ~~the~~ external auditors at the completion of the financial statements audit to receive and discuss the audit report(s), and determine whether external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles.
- ~~4.5.~~ Review the results and organizational response stemming from significant reviews by regulatory agencies or other external entities (nonfinancial statement audits).

### D. Internal Auditors

1. Approve the ~~Internal~~charter for the Office of Audit-Charter, Risk, and Compliance. The charter should be reviewed annually and updated as necessary.
2. Review and approve the annual audit plan and any significant changes to the plan.

3. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity and reporting relationships.
4. Review completed audit reports and progress reports on executing the approved annual audit plan.
5. [Review the results of the Office of Audit, Risk, and Compliance's Quality Assurance and Improvement Program \(QAIP\), 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.](#)
- 5-6. Inquire of the [Executive](#) Director of ~~Internal~~-[Audit, Risk, and Compliance](#) regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information.
- 6-7. Review and concur in the appointment, replacement, reassignment, or dismissal of the [Executive](#) Director of ~~Internal~~-[Audit, Risk, and Compliance](#).
- 7-8. Evaluate the [Executive](#) Director of ~~Internal-Audit's~~[Audit, Risk, and Compliance's](#) annual performance and make decisions regarding compensation.

A=Annually; Q=Quarterly; AN=As Necessary	Frequency			Planned Timing			
Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)	A	Q	AN	Q1	Q2	Q3	Q4
				Aug	Nov	Mar	Jun

<b>A. General</b>							
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**E. Compliance, Ethics, and Business Conduct**

1. [Support leadership by promoting and supporting a university-wide culture of ethical and lawful conduct.](#)
- ~~1.2.~~ Require management to periodically report on procedures that provide assurance that the university's mission, values, and codes of conduct are properly communicated to all employees.
- ~~2.3.~~ ~~Periodically review~~ [Review](#) the programs and policies of the university designed by management to assure compliance with applicable laws and regulations and monitor the results of the compliance efforts.
- ~~3.4.~~ Monitor the university's conflict of interest policies and related procedures.

The ~~attached~~ "[Audit](#)" [CAR](#) Agenda Meeting Planner" is an integral part of this document. If the Board of Visitors meets less frequently than anticipated, the Planner will be adjusted accordingly.

**Virginia Polytechnic Institute and State University**  
**Finance** [Compliance, Audit, and Audit](#) [Risk](#) Committee of the Board of Visitors  
**Audit** [CAR](#) Agenda Meeting Planner

A=Annually; Q=Quarterly; AN=As Necessary Q1, Q2, Q3, Q4 based on Fiscal Year (July – June)	Frequency			Planned Timing			
	A	Q	AN	Q1	Q2	Q3	Q4
				Aug	Nov	Mar	Jun
1. Review and update <del>F&amp;A</del> <a href="#">CAR</a> Committee <del>Audit</del> <a href="#">Charter</a> <a href="#">charter</a>	X				X		
2. Approve and maintain minutes of previous meeting		X		X	X	X	X
3. Authorize audits within the Committee's scope of responsibilities			X				
4. Report Committee actions to the Board of Visitors with recommendations deemed appropriate		X		X	X	X	X
5. Meet in closed session with <a href="#">Executive</a> Director of <del>Internal</del> Audit, <a href="#">Risk, and Compliance</a> , and with external auditors, as needed		X		X	X	X	X
<b>B. <a href="#">Risk Management and Internal Controls/Risk Assessment/Fin Reporting</a> <a href="#">Control</a></b>							
1. <a href="#">Review the university's ERM efforts including the program structure, processes, risk assessment, and risk management policies</a>		<a href="#">X</a>		<a href="#">X</a>	<a href="#">X</a>	<a href="#">X</a>	<a href="#">X</a>
<del>1.2.</del> Consider the effectiveness of the university's internal control systems			X				

<del>2. Review the university's processes for assessing significant business risk exposures and the steps taken to monitor and control such exposures</del>			X				
3. Understand the scope of internal and external audit reviews of internal control, and obtain reports on significant potential issues and recommendations, together with management's responses		X		X	X	X	X
<del>4. Review the annual financial statements with management and external auditors to determine whether the external auditors are satisfied with the disclosure and content of the financial statements, including the nature and extent of any significant changes in accounting principles</del>	X				X		
5.4. Review management's written responses to significant potential issues and recommendations of the auditors, including the timetable to correct identified weaknesses in the internal control system		X		X	X	X	X
6.5. Advise management that they are expected to provide a timely analysis of significant current financial reporting issues and practices	X				X		

A=Annually; Q=Quarterly; AN=As Necessary Q1, Q2, Q3, Q4 based on Fiscal Year (July—June)	Frequency			Planned Timing			
	A	Q	A N	Q1	Q2	Q3	Q4
				Aug	Nov	Mar	Jun
<b>C. External Auditors</b>							
1. Make inquiries of management and the independent auditors regarding the scope of the external audit for the current year	X						X
2. Discuss with the external auditors their processes for identifying and responding to key audit and internal control risks			X		X	X	
3. Review the coordination of internal and external audit procedures to promote an effective use of resources and ensure complete and efficient coverage of the university's risks			X	X		X	
4. Meet with <del>the</del> external auditors at the completion of the financial statements audit to receive and discuss the audit report(s)	X				X		
<u>5. Review results of other significant reviews from regulatory agencies or other external entities</u>			X				
<b>D. Internal Auditors</b>							

1. Review and approve <del>Internal Audit</del> the charter <u>for the Office of Audit, Risk, and Compliance</u> , if changes are needed	X				X		
2. Review the draft annual audit plan	X						X
3. Approve the annual audit plan	X			X			
4. Review the effectiveness of the internal audit function, including staffing resources, financial budget, training, objectivity, and reporting relationships	X			X			
<u>5. Review the results of the QAIP, including internal and external assessments</u>			X				
<del>5.6.</del> Review completed audit reports and progress reports on executing the approved annual audit plan		X		X	X	X	X
<del>6.7.</del> Inquire of the <u>Executive</u> Director of <del>Internal Audit, Risk, and Compliance</del> regarding any difficulties encountered in the course of the audits, including any restrictions on the scope of work or access to required information		X		X	X	X	X
<del>7.8.</del> Review and concur in the appointment, replacement, reassignment, or dismissal of the <u>Executive</u> Director of <del>Internal</del> <u>Audit, Risk, and Compliance</u>			X				
<del>8.9.</del> Evaluate the <u>Executive</u> Director of <del>Internal Audit's</del> <u>Audit, Risk, and Compliance's</u> annual performance and make decisions regarding compensation	X			X			

A=Annually; Q=Quarterly; AN=As Necessary Q1, Q2, Q3, Q4 based on Fiscal Year (July—June)	Frequency			Planned Timing			
	A	Q	A N	Q1	Q2	Q3	Q4
				Aug	Nov	Mar	Jun
<b>E. Compliance, Ethics, and Business Conduct</b>							
1. <del>Require</del> <u>Convey commitment to ethical conduct through periodic receipt of</u> management <del>to</del> <u>periodically report</u> reports on <del>procedures that</del> <u>provide assurance that</u> how the university's mission, values, and codes of conduct are properly communicated to all employees			X				
2. Review the programs and policies of the university designed to assure and monitor compliance		X	X	X	X	X	X
3. Monitor the university's conflict of interest policies and related procedures		X		X	X	X	X