



# TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

## Operating Policy and Procedure

**HSC OP:** 04.01, **Operation of the Office of Audit Services**

**PURPOSE:** This Operating Policy and Procedure (OP) sets forth the objectives and operation of the Office of Audit Services at Texas Tech University System.

**REVIEW:** This HSC OP will be reviewed by September 1 of each odd-numbered year (ONY) by the chief audit executive, with recommendations for revision forwarded to the President.

### **POLICY/PROCEDURE:**

#### **1. Nature of Work**

The Institute of Internal Auditors (2004) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The Office of Audit Services of Texas Tech University System will help the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The nature of work of the Office of Audit Services includes, but is not limited to:

- a. Identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems through monitoring and evaluation.
- b. Evaluating the effectiveness of controls and promoting continuous improvement of control systems, including those affecting:
  - Reliability and integrity of financial and operational information
  - Effectiveness and efficiency of operations
  - Safeguarding of assets, and
  - Compliance with laws, regulations, and contracts.
- c. Reviewing operations and programs to ascertain the extent to which results are consistent with established goals and objectives in order to determine whether operations and programs are being implemented or performed as intended.
- d. Evaluating the extent of compliance with state and federal laws, *Regents' Rules*, University Operating Policies, and contractual or other requirements.
- e. Performing audits or reviews of financial information.
- f. Evaluating whether University assets are being properly accounted for and reported.
- g. Testing for evidence of fraud, embezzlement, theft, waste, etc., in the performance of auditing procedures.
- h. Investigating or assisting with investigations of alleged improprieties.

#### **2. Functions and Reporting of Audit Services**

- a. The Office of Audit Services is established by the Board of Regents in accordance with the Texas Internal Auditing Act (the Act). In order to provide organizational independence, the chief audit executive (CAE), who coordinates and supervises the Office of Audit Services, reports functionally to the Board of Regents through the Audit

Committee and administratively to the Chancellor.

- b. The CAE will periodically update the President, the Chancellor, and the Chair of the Audit Committee of the Board of Regents on the status and results of audits, engagements, and other projects.
- c. As required by the Act, the Office of Audit Services will comply with The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing*, The IIA's *Code of Ethics*, and generally accepted government auditing standards.
- d. As required by the Act, the CAE will prepare an annual audit plan based on the assessment of risks facing Texas Tech and with input from various members of Texas Tech management. The plan will be flexible, allowing time for consideration of unplanned projects and management requests.
- e. As required by the Act, the CAE will prepare an annual report of the Office's activities in accordance with the form and content required by the State Auditor.

### 3. **Method of Operation**

- a. Generally, the CAE or a representative will notify the appropriate level of University management as to the timing, staffing, and scope of engagements included in the annual audit plan. The performance of certain procedures (e.g., cash or inventory counts or reviews of cash handling procedures) may be unannounced.
- b. In sensitive cases as determined by the CAE, only the President, the Chancellor, and/or the Chair of the Audit Committee of the Board of Regents and/or other applicable upper management will be notified of an impending audit.
- c. When the progress or results of a routine engagement result in the engagement being deemed sensitive by the CAE, communication and reporting may be shifted from the planned level of University management to a higher level.
- d. To accomplish these activities, the CAE and staff members of the Office of Audit Services are authorized to have full, free, and unrestricted access to all functions, manual and electronic records (including student, personnel, and medical records), property, and personnel relevant to any audit or engagement. Auditors will be prudent in the use and protection of information acquired during the course of an engagement.
- e. Objectivity refers to the need for auditors to make a balanced assessment of all relevant circumstances without being unduly influenced by their own interests or by others in forming judgments. Objectivity is essential to the audit function; therefore, internal auditors will maintain an impartial, unbiased attitude and avoid conflicts of interest by not participating in any activity or relationship that may impair or presume to impair their unbiased assessment. Objectivity is not adversely affected by determining and recommending standards of control or procedures. (The Institute of Internal Auditors, 2004)

### 4. **Reporting Engagement Results**

- a. The progress and results of engagements ordinarily will be communicated with client management periodically during the engagement. At the conclusion of each engagement, a draft report of observations, recommendations, and pertinent information will be presented to the appropriate level of management for effecting change. In most cases, an exit conference will be held to discuss the report. In certain cases, reports may be made orally.
- b. The CAE will incorporate a written response from management into most engagement reports. Generally, ten working days will be provided for the response, although a longer time period may be appropriate depending on the nature of the report.

- c. Upon receipt of the response, a final report will be prepared and submitted to the appropriate levels of management. If management fails to respond to the draft report in a timely manner, a final report may be issued without a response.
- d. In an especially sensitive case, the CAE may report only to the President, the Chancellor, and/or the Chair of the Audit Committee of the Board of Regents and/or to appropriate levels of management as determined by the CAE.
- e. On any matter involving a violation of state or federal law or in cases where fraud is suspected, the CAE will directly inform the President, the Chancellor and/or Chair of the Audit Committee of the Board of Regents. The CAE may also inform the Office of General Counsel, Texas Tech Police Department, and/or other law enforcement officials.

References: The Institute of Internal Auditors. (2004). *The Professional Practices Framework*. Altamonte Springs, FL: The Institute of Internal Auditors.