

# THE AGA KHAN UNIVERSITY

## INTERNAL AUDIT CHARTER<sup>1</sup>

Responsible Organizational Unit	Internal Audit Department
Approved By	AKU Board of Trustees
Date of Approval	December 3, 2016
Date of Last Review	March 18, 2018 (no amendments)
Date of Next Review by Audit Committee	July 2020
Date of Original Issue	December 15, 2005
Related Policies/Procedures	Audit Committee Terms of Reference, Internal Audit Methodology Manual

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<sup>1</sup> The Institute of Internal Auditor's model Internal Audit Activity Charter has been used to produce this document.

## **1.0 MISSION**

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- 1.1 Internal Auditing is an independent, objective assurance, investigative and consulting function that is designed with the aim of adding value to improve The Aga Khan University's (AKU's or University's) operations, its internal controls and risk management processes.

## **2.0 ROLE OF THE INTERNAL AUDIT DEPARTMENT**

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- 2.1 The internal audit activity is governed by the Audit Committee of the Board of Trustees, who also define the department's responsibilities as part of their oversight role.
- 2.2 The Internal Audit Department (IAD) aims to assist the Board of Trustees and management in accomplishing their objectives through a systematic evaluation of all aspects of operations for compliance with defined policies, processes and applicable statutes. IAD performs an assessment of the risk management processes and the internal controls in place for safeguarding the Institution's assets and interests. IAD shall also provide input on the adequacy of internal controls, policies and processes.
- 2.3 The IAD shall not participate in the performance of operational activities that include: management decisions, initiate or approve accounting transactions, policies, processes and systems such that IAD ends up assuming responsibility for management decisions.
- 2.4 The IAD may however facilitate implementation of recommendations.

## **3.0 PROFESSIONAL STANDARDS AND ETHICS**

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- 3.1 In discharging its work, IAD will ensure adherence to The Institute of Internal Auditors' (IIA) mandatory guidance including: the Definition of Internal Auditing; the Code of Ethics; and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance defines fundamental principles of professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity. Financial auditing is conducted in accordance with Generally Accepted Accounting Principles (GAAP) and other relevant standards.
- 3.2 IAD will also ensure adherence to applicable international best practices and IIA's pronouncements through 'practice advisories', 'practice guides', and 'position papers'<sup>2</sup>. IAD will also keep the Audit Committee informed of perceived best practice.
- 3.3 In addition, the internal audit activity will adhere to relevant policies and procedures and IAD's standard operating procedures manual.
- 3.4 All IAD personnel will sign an annual statement of independence and objectivity, and will disclose any potential impairment, such as conflict of interests, when recognized.

## **4.0 AUTHORITY**

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- 4.1 IAD personnel shall have full, free and unrestricted access as specified below in the performance of internal audit activities.

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<sup>2</sup> IAD is currently updating its methodology and processes following an external review report in July 2015 and therefore the Institute of Internal Auditors' best practice are still being incorporated.

- i. Access to all books, documents, accounts, policies, procedures, manuals, auditors reports, properties, vouchers, records, correspondence and other data, which are necessary for the performance of the internal audit function; and
  - ii. Right to enter any premises and to request relevant personnel to furnish all information and explanations deemed necessary to form an opinion on the adequacy of systems and controls.
- 4.2 All activities shall be carried out in strict confidence and IAD personnel shall be responsible for the safeguard of records and information, whilst in their custody.
- 4.3 It is incumbent on all employees to render every assistance to the IAD in carrying out their duties.

## **5.0 ORGANIZATION AND REPORTING LINES**

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- 5.1 The Chief Internal Auditor is the head of the department and will functionally report to the Chair of the Audit Committee and administratively to AKU's President, supported by an Internal Audit Review Committee (IARC) comprising senior members of the University and other professionals from outside the University. The terms of reference of the Chief Internal Auditor are annexed to this document.
- 5.2 The Audit Committee (AC) in accordance with its terms of reference will:
- i. Review and approve the internal audit charter annually.
  - ii. Provide oversight of the Internal Audit Department ensuring that there are no unjustified restrictions or limitations placed on the internal audit function.
  - iii. Review of the scope and extent of internal audit and ensure that the internal audit function has adequate resources and is appropriately placed within the entity.
  - iv. Facilitate discussions on major observations emanating from audits and investigations and other matters of concerns raised by Internal Audit with remedial and corrective measures adopted by management.
  - v. Review and approve annual internal audit plans based on assessments of risk and risk management and all major changes to the plan. Review the internal audit department's activities relative to its plan.
  - vi. Ensure coordination between internal and external auditors.
  - vii. On a regular basis, meet separately with the Chief Internal Auditor to discuss any matters that the committee or internal auditor believes should be discussed privately.
  - viii. Approve the internal audit budget and resource plan.
- 5.3 The Chair of the Audit Committee will:
- i. Approve decisions regarding the appointment, removal and functioning of the Chief Internal Auditor.
  - ii. Conduct the annual performance appraisal of the Chief Internal Auditor.
  - iii. Approve the remuneration of the Chief Internal Auditor.
- 5.4 The objective of the IARC shall be to evaluate:

- i. The overall internal control environment of the University, including the information technology control environment, to determine the existence and effectiveness of processes to identify and respond to risks confronting the University.
- ii. The University's compliance with legal and regulatory requirements.
- iii. The conservation and optimal utilization of the University's assets and resources through an effective system of internal review and control.

## **6.0 INDEPENDENCE AND OBJECTIVITY**

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- 6.1 Internal audit activity will remain free from interference or influence in matters of audit selection, scope, procedures, frequency, timing and report content to maintain the desired independence and objectivity.
- 6.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.
- 6.3 IAD personnel will exercise professional judgment to determine the scope of their work and the communication of their findings.
- 6.4 Therefore, the Chief Internal Auditor and IAD personnel shall:
  - i. be independent of any other section, branch or officer, and shall have direct access to the Audit Committee and AKU's President; and
  - ii. not be responsible for the development and or implementation of new systems but if required, act in an advisory capacity during the system development process on the control measures to be incorporated in new or amended systems, and be advised of approved variations or new developments.
- 6.5 Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 6.6 IAD personnel will not provide internal audit services to a business line or function in which they had line/business responsibilities within the previous 12 months.
- 6.7 The Chief Internal Auditor will confirm to the board annually the organizational independence of the internal audit activity.

## **7.0 RESPONSIBILITY**

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- 7.1 The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:
  - i. Evaluating the alignment of organizational objectives with the University's mission.

- ii. Evaluating risk exposure relating to achievement of the organization's strategic objectives and its reputation, including identification, evaluation and management of business risks.
- iii. Evaluating the reliability and integrity of financial and operational information and the means used to identify, measure, classify, and report such information.
- iv. Evaluating the systems established to ensure compliance with policies, plans, procedures, laws, and regulations which could significantly impact the organization.
- v. Evaluating the means of safeguarding assets against fraud, irregularities and corruption, and, as appropriate, verifying the existence of such assets.
- vi. Evaluating the effectiveness and efficiency with which resources are employed.
- vii. Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- viii. Monitoring and evaluating the effectiveness of the organization's governance, operational and risk management processes, including information technology and cyber security risks.
- ix. Coordinating with the external auditors. Please refer section 11.0 below for details.
- x. Performing advisory services related to governance, risk management and the control environment as appropriate for the organization.
- xi. Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- xii. Providing assurances, opinions and makes recommendations to improve processes and systems where appropriate contained in reports issued to management.
- xiii. Offering consulting services of an advisory nature without assuming management responsibility or jeopardizing achievement of the audit plan.
- xiv. Managing the activities in accordance with the approved budget.

7.2 In addition, the IAD shall engage with the AC on the following matters:

- i. Agree on a long term audit strategy and staffing projections, based upon a needs assessment of all University activities.
- ii. Agree on annual audit plans and staffing requirements.
- iii. Ensure that the department is appropriately staffed at all levels and appropriate succession plans are in place for senior roles.
- iv. Report significant risk exposures and control issues, including fraud risks, governance issues, and other matters.
- v. Report specific cases where IAD believes Senior Management may have accepted a level of residual risk that may be unacceptable to the University.

7.3 IAD shall undertake special assignments, including forensic reviews and assist in the investigation of significant suspected fraudulent activities, as requested by management, the IARC or the Audit Committee and will notify the results.

- 7.4 IAD may conduct special reviews or consulting activities requested by the Board of Trustees, the Audit Committee, the President, provided such work does not compromise its objectivity or independence

## **8.0 INTERNAL AUDIT PLAN**

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- 8.1 The Chief Internal Auditor will submit a risk-based annual internal audit plan to the Audit Committee for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to senior management and the Board.
- 8.2 The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee. Inputs will also be solicited from the external auditors including areas of concern identified in earlier external audits.
- 8.3 The Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Audit Committee through periodic activity reports.
- 8.4 The Chief Internal Auditor will syndicate the annual agreed audit plan with senior management as appropriate.

## **9.0 REPORTING AND MONITORING**

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- 9.1 A written report will be prepared and issued by the Chief Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Audit Committee through periodic reports as defined by the Committee.
- 9.2 The internal audit report should include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 9.3 IAD will follow-up to ensure satisfactory closure on agreed recommendations.
- 9.4 The Chief Internal Auditor will periodically report to senior management and the Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management, the Audit Committee, External Audit or relevant external regulatory bodies.
- 9.5 IAD will provide periodic updates on performance against approved plan.

## **10.0 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

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- 10.1 The internal audit function will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the

internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement of internal audit practices.

- 10.2 IAD maintains adequate & appropriate training and professional development for its personnel. The Chief Internal Auditor will ensure that IAD has appropriate formal training and development programs for its personnel and periodically will report on the quality assurance and improvement program, highlighting personnel development and training.
- 10.3 The Chief Internal Auditor will initiate an external review of IAD's activities and processes at least every three years.

#### **11.0 LIAISON WITH EXTERNAL AUDITOR**

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- 11.1 The Chief Internal Auditor shall liaise with the external auditor to:
- i. Foster a cooperative working relationship.
  - ii. Reduce the incidence of duplication of effort.
  - iii. Ensure appropriate sharing of information.
  - iv. Ensure coordination of the overall audit effort.

#### **12.0 EXTERNAL RESOURCES**

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- 12.1 The Chief Internal Auditor shall be authorized to engage external resources to assist in the completion of the audit plan or to undertake any other relevant review. External resources may include:
- i. Employees from other units/departments of AKU not directly engaged in the proposed activity.
  - ii. Volunteer resources which can be recruited from the various Aga Khan Grants and Review Boards, the Department of Jamati Institutions and the Time and Knowledge Nazrana database.
  - iii. Professional consultants and/or firms.
- 12.2 The Chief Internal Auditor shall be authorized to engage and communicate with external audit and other professional industry bodies.