



Office of Internal Audit

Internal Audit Charter

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Commissioner of Banks, Department of Labor, Department of Military and Veterans Affairs, Industrial Commission, Office of State Budget and Management, Office of State Human Resources, Office of the Governor, and Office of the State Auditor. It assists these agencies in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control.

ROLE:

The internal audit activity is established by General Statute Chapter 143, Article 79. The internal audit activity's responsibilities are defined by these laws. The Council of Internal Auditing has authority to set policy related to the internal audit function.

PROFESSIONALISM:

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the Core Principles, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The requirement within General Statute Chapter 143, Article 79 will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to the Office of State Budget and Management's relevant policies and procedures and the internal audit internal procedure manual.

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Commissioner of Banks, Department of Labor, Department of Military and Veterans Affairs, Industrial Commission, Office of State Budget and Management, Office of State Human Resources, Office of the Governor, and Office of the State Auditor records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

ORGANIZATION:

The Internal Audit Director will report functionally to the Council of Internal Auditing (Council) and administratively State Budget Officer.

The Council will

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

The Internal Audit Director will communicate and interact directly with the Council, including in executive sessions and between Council meetings as appropriate.

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity will remain free from interference by any element in the agencies, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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.

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.

The Internal Audit Director will confirm to the Council, at least annually, the organizational independence of the internal audit activity.

RESPONSIBILITY:

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 may include:

- Evaluating risk exposure relating to achievement of the organization's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- 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.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Evaluating specific operations at the request of the Council or management, as appropriate.

INTERNAL AUDIT PLAN:

At least biannually, the Internal Audit Director will submit to senior management and the Council a risk-based internal audit plan for review and approval. The Internal Audit Director will communicate the impact of resource limitations and significant interim changes to senior management and the Council.

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 Council. The Internal Audit Director 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 Council.

REPORTING AND MONITORING:

A written report will be prepared and issued by the Internal Audit Director or designee following the conclusion of each internal audit engagement and will be distributed as appropriate.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Internal Audit Director will periodically report to senior management and the Council on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity 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.

The Internal Audit Director will communicate to senior management and the Council on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Linda Combs, Chairman of the Council of Internal Auditing Approval Date

Charles Perusse, State Budget Officer Approval Date

Barbara Baldwin, Internal Audit Director Approval Date