

## Internal Audit

### Purpose

The district shall maintain a comprehensive program of internal auditing through the office of internal auditing, which shall be led by the internal auditor. The internal auditor shall strengthen the district's ability to create, protect, and sustain value by providing the Board audit committee and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the District's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The District's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' (IIA's) Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Board audit committee.
- Internal auditors are free from undue influence and committed to making objective assessments.

### *Commitment to Adhering to Global Internal Audit Standards*

The District's internal audit function shall adhere to the mandatory elements of The IIA's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The internal auditor shall report annually to the Board audit committee and senior management regarding the internal audit function's conformance with the standards, which shall be assessed through a quality assurance and improvement program.

### Mandate *Authority*

The internal audit function's authority is created by its direct reporting relationship to the Board audit committee. Such authority allows for unrestricted access to the Board audit committee.

The Board authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of District and other specialized services from within or outside District to complete internal audit services.

*Independence,  
Organizational  
Position, and  
Reporting  
Relationships*

The internal auditor shall be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function.

The internal auditor shall report functionally to the Board audit committee and administratively (for example, day-to-day operations) to the Superintendent. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Board audit committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

- To establish, maintain, and ensure that District's internal audit function has sufficient authority to fulfill its duties, the Board audit committee shall: Discuss with the internal auditor and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function annually.
- Ensure the internal auditor has unrestricted access to, communicates, and interacts directly with the Board audit committee, including in private meetings without senior management present. Ensure any such meetings are held in accordance with laws and/or regulations applicable to public records.
- Discuss with the internal auditor and senior management other topics that should be included in the internal audit charter and this policy.
- Participate in discussions with the internal auditor and senior management about the "essential conditions," described in

the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.

- Review the internal audit charter annually with the internal auditor to consider changes affecting organization changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter and this policy annually.
- Approve the internal audit plan.
- Provide input to the internal audit function's human resources administration and budgets.
- Review and approve the internal audit function's expenses annually.
- Provide input to senior management on the appointment and removal of the internal auditor, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and obtain input from senior management on the internal auditor performance.
- Receive quarterly communications from the internal auditor about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established and review the results annually.
- Make appropriate inquiries of senior management and the internal auditor to determine whether scope or resource limitations are inappropriate.

Individual Board audit committee members shall have no individual authority to direct audits. Audit selection shall be based on the internal auditor's professional judgment, augmented by the direction of the Board audit committee acting as a whole.

For purposes of this policy, "report administratively" shall mean the Superintendent provides appropriate structure for the internal audit function within the District, which includes, but is not limited to:

1. Budget, accounting, procurement, and information technology support;
2. Human resource administration, including support in hiring personnel and providing compensation;
3. Adequate work space, furniture, and equipment; and

4. Administration of the District's policies and procedures, to include enforcement of time and attendance, travel, and purchasing requirements.

The Superintendent may suggest but shall not dictate areas to be audited and shall work cooperatively with the internal auditor to ensure access and removal of impediments to audited areas.

The internal auditor shall confirm to the Board audit committee, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the internal auditor shall document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The internal auditor shall disclose to the Board audit committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure shall include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

*Changes to the  
Mandate,  
Charter, and  
CFC(LOCAL)*

Circumstances may justify a follow-up discussion between the internal auditor, Board audit committee, and senior management on the internal audit mandate or other aspects of the internal audit charter and this policy. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within the organization.
- Significant changes in the internal auditor, Board audit committee, and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Chief Audit  
Executive  
(Executive Director)  
Roles and  
Responsibilities

*Ethics and  
Professionalism*

The internal auditor will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.

- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

### *Objectivity*

The internal auditor shall ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the internal auditor determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors shall maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for District or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any District employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.
- Internal auditors shall:
  - Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the internal auditor, Board audit committee, management, or others.
  - Exhibit professional objectivity in gathering, evaluating, and communicating information.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

*Managing the  
Internal Audit  
Function*

The internal auditor has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Board audit committee and senior management. Discuss the plan with the Board audit committee and senior management and submit the plan to the Board audit committee for review and approval and communicate, as needed, any substantial ad hoc requests for approval.
- Communicate the impact of resource limitations on the internal audit plan to the Board audit committee and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in District's business, risks, operations, programs, systems, and controls.
- Communicate with the Board audit committee and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards and laws and/or regulations.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Board audit committee and senior management periodically and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact District and communicate to the Board audit committee and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.

- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to District's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Board audit committee and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the internal auditor cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the Board audit committee.

*Communication  
with the Board  
Audit Committee  
and Senior  
Management*

The internal auditor shall report to the Board audit committee and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Board audit committee that could interfere with the achievement of District's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond District's risk appetite.

*Quality  
Assurance and  
Improvement  
Program*

The internal auditor shall develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program shall include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment shall include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the internal auditor shall communicate with the Board audit committee and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments shall be conducted at least once every five years by a qualified, independent assessor or assessment team from outside District; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

Scope and Types of  
Internal Audit  
Services

The scope of internal audit services covers the entire breadth of the organization, including all of District's activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Board audit committee and management on the adequacy and effectiveness of governance, risk management, and control processes for District.

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities shall be communicated to the appropriate level of management.



Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of District's strategic objectives are appropriately identified and managed.
- The actions of District's officers, directors, management, employees, and contractors or other relevant parties comply with District's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively, efficiently, ethically, and equitably.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact District.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Resolution of  
Disputes

The internal audit department shall make all attempts to resolve at the lowest level any disputes regarding specific findings or recommendation disagreements. In the event the internal audit staff cannot resolve the issue, the matter shall be referred to the Superintendent for resolution. In the event the dispute is not satisfactorily resolved or involves the Superintendent, it shall be referred to the Board for adjudication.