

## PROPOSED REVISIONS

### Internal Audit

#### Purpose

The purpose of the internal audit department is to strengthen the District's ability to create, protect, and sustain value by providing the Board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit department enhances the following for the District:

- 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 department is most effective when:

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

#### Auditing Standards

The District's internal audit department shall adhere to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The internal auditor, also known as the chief audit executive, shall report annually to the Board and senior management regarding the internal audit department's conformance with the standards, which shall be assessed through a quality assurance and improvement program. As public sector internal auditors, there may be situations in which laws or regulations affect the ability of the District's internal audit department to conform to the standards.

~~The District shall support an internal audit department as an independent, objective assurance and consulting activity designated to add value and improve District operations.~~

~~The internal audit department's primary objective shall be to help the Board and District management accomplish their objectives by bringing a systematic approach to evaluating and improving the ef-~~

Authority

~~fectiveness of risk management, control, and governance processes. To this end, the internal audit department shall furnish the Board and management with analyses, recommendations, counsel, and information concerning activities reviewed.~~

In accordance with law, the Board shall select an internal auditor who reports directly to the Board, and the internal audit department shall have unrestricted access to the Board.

The Board authorizes the internal audit department to:

- Have full and unrestricted access to all departments, 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 department's objectives.
- Obtain assistance from District personnel and other specialized services within or outside of the District to complete internal audit services.

~~Internal auditing shall be a staff function with no authority over the personnel and activities being audited. Its independence from operating responsibility promotes objectivity. As an independent appraisal function, the internal audit department shall examine and evaluate any activity of the District. To conduct audits, the audit staff is authorized access to all District activities, records (paper or electronic), property, and personnel.~~

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 department.

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

The internal auditor shall confirm to the Board, at least annually, the organizational independence of the internal audit department. 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 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 department's effectiveness and ability to fulfill its mandate.

### **Responsibility**

~~The internal audit department shall function under policies established by the Board. The internal auditor shall report functionally to the Board and administratively to the Superintendent. Individual Board members may contact the internal audit director with suggestions of audit focus areas but shall have no individual authority to direct such audits. Any audit suggested by individual Board members shall be reported to the Board. Audit selection shall be based on the internal auditor's professional judgment augmented by the direction of the Board acting as a whole.~~

~~Report "functionally" means, but is not limited to, the Board:~~

- ~~1. Approving the charter of the internal audit function.~~
- ~~2. Approving internal audit plans.~~
- ~~3. Receiving communications from the internal auditor on the results of the internal audit activities or other matters that the internal auditor determines necessary.~~
- ~~4. Communicating with the internal auditor concerning internal audit activities.~~
- ~~5. Evaluating the internal auditor's performance.~~
- ~~6. Making decisions regarding the appointment or removal of the internal auditor.~~

### Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the internal auditor, the Board, 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 positions of the internal auditor, the Board, or senior management.

Board Oversight

- 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.

To establish, maintain, and ensure the District's internal audit department has sufficient authority to fulfill its duties, the Board shall:

- Discuss with the internal auditor and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and advisory) of the internal audit department.
- Ensure the internal auditor has unrestricted access to, and communicates and interacts directly with the Board, including in the executive sessions of Board meetings without t senior management present.
- 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 department.
- Approve the internal audit department's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter periodically with the internal auditor to consider changes affecting the organization, such as the employment of a new internal auditor or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter and this policy when changes are warranted. .
- Approve the internal audit plan annually.
- Collaborate with senior management to determine the qualifications and competencies the organization expects in an internal auditor, as described in the Global Internal Audit Standards.
- Authorize the appointment and removal of the internal auditor.
- Evaluate the internal auditor's performance annually.

- Receive communications from the internal auditor about the internal audit department including its performance relative to its plan. Reports shall not be considered final or available for public release until after they have been submitted to the Board.
- Ensure a quality assurance and improvement program has been established.
- Make appropriate inquiries of management and the internal auditor to determine whether scope or resource limitations are inappropriate.

An individual Board member may contact the internal auditor with suggestions of audit focus areas but shall have no individual authority to direct such audits.

Administrative  
Reports to  
Superintendent

For purposes of this policy, Report “administratively” means the Superintendent shall provide ~~ing~~ appropriate structure for the internal audit function within the organization that includes, but is not limited to, ~~providing~~:

- Budget, accounting, procurement, and information technology support.
- Human resource administration including support in hiring personnel and providing compensation.
- Adequate working space, furniture, and equipment.
- Administration of the District’s policies and administrative 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~~ internal auditor to ensure access and removal of impediments to audited areas.

~~No~~ A District employee shall not dictate areas to be audited nor what should or should not be included on audit reports.

~~Internal audits shall be planned and conducted in accordance with the International Standards for the Professional Practice of Internal Auditing and The Code of Ethics promulgated by the Institute of Internal Auditors. This shall include:~~

~~7. Establishing risk-based plans to determine the priorities of the internal audit activity.~~

~~8. Communicating the internal audit plans and resource requirements to the Board for review and approval.~~

~~9. Responding to the Board's special requests for audit and consulting services.~~

~~10. Communicating results and recommendations to appropriate individuals.~~

~~11. Maintaining a system to monitor the disposition of results and recommendations communicated to management.~~

~~12. Reporting periodically to the Board on accomplishments relative to the audit plan and special requests. Reporting shall include significant risk, control, and policy issues identified during audits.~~

~~13. Coordinating audit efforts with those of the District's external auditors.~~

~~14. Continuing professional development of the audit staff.~~

Internal Auditor  
Roles and  
Responsibility

Ethics and  
Professionalism

The internal auditor, also known as the chief audit executive, shall 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 administrative procedures.

Objectivity

The internal auditor shall ensure that the internal audit department 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 shall 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 shall 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 the District or its affiliates;
- Initiating or approving transactions external to the internal audit department; and
- Directing the activities of any District employee that is not employed by the internal audit department, 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, the Board, senior management, or others;
- Exhibit professional objectivity in gathering, evaluating, and communicating information;
- Make balanced assessments of all available and relevant facts and circumstances; and
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the  
Internal Audit  
Department

The internal auditor shall be responsible for the following:

- At least annually, develop a risk-based internal audit plan that considers the input of the Board and senior management. Discuss the plan with the Board and senior management and submit the plan to the Board for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Board and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the District's business, risks, operations, programs, systems, and controls.

- Communicate with the Board 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.
- 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 and senior management periodically and for each engagement as appropriate.
- Ensure the internal audit department collectively possesses or obtains the knowledge, skills, and other competencies 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 the District and communicate to the Board 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 department.
- Ensure adherence to the District's relevant policies and administrative procedures unless they conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts shall be resolved or documented and communicated to the Board 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.

Communication with the Board and Senior Management

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

- The internal audit department's mandate.
- The internal audit plan and performance relative to its plan.
- 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 department's conformance with the Global Internal Audit Standards and action plans to address the internal audit department'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.
- Results of assurance and advisory services.
- Resource requirements.
- Senior management's responses to risk that the internal audit department determines may be unacceptable or acceptance of a risk that is beyond the 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 department. The program shall include external and internal assessments of the internal audit department's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit department's progress toward the achievement of its objectives and promotion of continuous improvement. The program shall also assess, if applicable, compliance with laws and regulations relevant to internal auditing. As applicable, the assessment shall include plans to address the internal audit department's deficiencies and opportunities for improvement.

The internal auditor shall annually communicate with the Board and senior management about the internal audit department'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 the District with qualifications that 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 the District's activities, assets, and personnel, and as identified in the audit universe. The scope of internal audit activities shall encompass, but is not limited to, objective examinations of evidence to provide independent assurance

and advisory services to the Board and senior management on the adequacy and effectiveness of governance, risk management, and control processes for the District.

The nature and scope of advisory services may be agreed upon with the party requesting the service, provided the internal audit department 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 evaluations in accordance with the following:

- Risks relating to the achievement of the District's strategic objectives are appropriately identified and managed.
- The actions of District employees and contractors regarding compliance with District policies, administrative procedures, and applicable laws and governance standards.
- District operations and programs are being carried out effectively and efficiently and the results are consistent with established goals and objectives.
- Established processes and systems enable compliance with applicable law, District policies, and administrative procedures that could significantly impact the 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.