

**COUNTY OF MONTEREY
OFFICE OF THE AUDITOR-CONTROLLER
INTERNAL AUDIT DIVISION CHARTER**



October 2018

COUNTY OF MONTEREY OFFICE OF THE AUDITOR-CONTROLLER INTERNAL AUDIT DIVISION CHARTER

Purpose and Mission

The purpose of Monterey County's Office of the Auditor-Controller's Internal Audit Division (IAD) is to provide reliable independent, and objective, assurance and consulting services, designed to add value and improve Monterey County's operations.

The mission of the IAD is to help Monterey County's Board of Supervisors (Board) and senior management achieve their stated initiatives and goals by providing effective audit and consulting services designed to provide objective assurance, advice, and insight.

The IAD helps the Board and senior management accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and internal control processes.

Standards for the Professional Practice of Internal Auditing

The IAD will govern itself by adherence to the mandatory elements of California Government Code, section 1236 and adopt the standards and guidelines promulgated by The Institute of Internal Auditor's (IIA) International Professional Practice of Internal Auditing (*Standards*), Core Principles, Code of Ethics, and the definition of Internal Auditing, all of which, when taken together are referred to as the International Professional Practices Framework (IPPF). The IAD will also comply with Generally Accepted Government Auditing Standards (GAGAS) issued by the U.S Government Accountability Offices' (GAO) Comptroller General of the United States.

Other authoritative guidance, such as the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board, Generally Accepted Auditing Standards (GAAS) and the International Standards on Auditing (ISA) set by the International Auditing and Assurance Standards Board (IAASB) under the authority of the International Federation of Accountants (IFAC), will also be considered when applicable.

Authority

Pursuant to Government Code¹ section 26883, the Board has the power to "enter into contracts for audits or require the County Auditor-Controller to audit the accounts and records of any department, office, Board, or institution under its control and of any district whose funds are kept in the County Treasury. The County Auditor-Controller's report on any such audit shall be filed with the Board and, if the report discloses fraud or gross negligence a copy thereof shall be filed with the District Attorney."

Government Code section 26884 gives the Board the option of electing to require the Auditor-Controller "perform the additional services authorized by this chapter. In doing so, the Board shall have the power and it shall be its duty to provide by proper appropriations for any additional personnel, equipment, supplies or expenses made necessary thereby."

Government Code section 26885 requires that "the provisions of this chapter shall become operative only upon their adoption by a resolution passed by a unanimous vote

¹ Government Code; Title 3; Division 2; Part 3; Chapter 3.5

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of the Board at a regular meeting at which all members are present. Any resolution adopted pursuant to this section may be repealed by the Board at any time by a three-fifths vote.”

Monterey County Board of Supervisor’s Resolution No. 18-316, dated September 25, 2018, approved the County of Monterey Internal Audit Policies and revised the Budget Committee Roles and Responsibilities surrounding the oversight of audit activity for the County. Resolution No. 18-316 reaffirms the Board’s sole authority to conduct audits under Government Code section 26883 and establishes the Boards decision to retain authority to assign audits to the Auditor Controller’s Internal Audit Division (IAD), the County Administrative Office (CAO), or the Office of County Counsel, as deemed appropriate. Lastly, this resolution establishes processes for approving the internal audit plan, internal audit and project requests, and reporting of related results.

Section 4. (Authority) of the County of Monterey’s Internal Audit Policies, authorizes the Board to conduct audits and allows for unrestricted access to any and all Monterey County records. Section 6. (Responsibility), requires internal auditors to be compliant with California Government Code Section 1236 and applicable Standards, as well as, directs internal auditors to evaluate various functions and control systems in the County and advise the Board and senior management on the adequacy and effectiveness of governance, risk management, and internal control processes.

This Charter governs the internal audit activity of the Office of the Auditor-Controller’s IAD. The Auditor-Controller is an elected office, previously created by Order of the Board, and is the established Chief Audit Executive (CAE) of the County as defined by the Institute of Internal Auditors.² The CAE is responsible for ensuring audit activities approved by the Board and assigned to the Office of the Auditor-Controller are effectively administered through the IAD. The IAD is independent from the County’s organizational structure, which allows objective reporting of audit results. To authorize the IAD to implement financial, operational, performance, and compliance, assurance and consulting activities, and to establish, maintain, and assure that the IAD has sufficient authority to fulfill its duties, the Board will:

- approve the IAD’s charter;
- approve the risk-based internal audit plan;
- approve the IAD’s budget and resource plan;
- receive communications from the CAE and IAD Chief Deputy on the IAD’s performance relative to its plan and other matters; and
- make appropriate inquiries of management and the IAD to determine whether there is inappropriate scope or resource limitations.

² Chief Audit Executive - describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework.

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Independence and Objectivity

Independence is a central tenet in the audit profession and requires “freedom from situations that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the IAD should have direct and unrestricted access to senior management and the Board. Internal audit members must maintain “independence of mind”³ and “independence in appearance.”⁴ Internal auditors are required to identify threats to independence, evaluate the significance of the threats⁵ identified, both individually and in the aggregate, and apply safeguards⁶ as necessary to eliminate the threats or reduce them to an acceptable level.

The CAE, and IAD Chief Deputy, who operates under the Office of the Auditor-Controller, are responsible for directing the County’s internal audit function, must ensure compliance with IIA *Standards* 1110 and 1110.A1 – Organizational Independence. Organizational Independence requires reporting to a level within the organization that 1) allows the IAD to fulfill its activities and 2) to be free from interference in determining the scope of internal auditing, performing work, and communicating results. To ensure organizational independence and compliance with IIA *Standard* 1111 – Direct Interaction with the Board, the CAE and IAD Chief Deputy, will report functionally to the Board of Supervisors, or designee.

Functional reporting to the Board should not be construed to mean directing the operations of the IAD. Functional reporting should be interpreted to mean “required periodic reporting of the risk-based internal audit plan, audit and special project results, status of corrective actions, risk exposures and internal controls, internal audit performance, resource needs and constraints, and conformance to the Code of Ethics, IIA *Standards*, and GAGAS.” The IAD operations, overseen by the CAE, and directed by IAD Chief Deputy, will be driven by assessed risks determined in collaboration with, and approved by, the Board and senior management. Although IAD operational engagements are determined collaboratively, the IAD is the final determiner of the scope and objectives to be included on individual engagements. Such determinations must be documented and based on sound rationale of those areas that contain the most risk and exposure to the County in alignment with the approved risk assessment.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors not subordinate their judgment on audit matters to others. The credibility bestowed on internal audit reports is directly related to the internal auditors’ objectivity in discharging their professional responsibilities. Maintaining objectivity includes a continuing assessment of relationships with audited entities and other stakeholders in the context of the auditors’ responsibility to the public.

³ GAGAS, paragraph 3.03a. – Independence of Mind

⁴ GAGAS, paragraph 3.03b. – Independence of Appearance

⁵ GAGAS, paragraph 3.14 - Threats

⁶ GAGAS, paragraph 3.16 - Safeguards

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The concepts of independence and objectivity are closely related. “Independence impairs objectivity.”⁷ Threats to independence and objectivity must be managed at the individual auditor, engagement, functional, and organizational levels. Since the CAE, who is also the Auditor-Controller, has managerial responsibility over the County’s Disbursement, Accounting and Financial Reporting processes, corresponding assurance engagements of the Auditor-Controller’s operations will be performed by an external firm with the necessary skills, knowledge, and experience to satisfy the IIA *Standards*, and GAGAS requirements.

The CAE and IAD Chief Deputy will ensure that the IAD remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE or IAD Chief Deputy determine that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

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

- assessing specific operations for which they had responsibility within the previous year;
- performing any operational duties for Monterey County or its affiliates;
- initiating or approving transactions external to the IAD; and
- directing the activities of any Monterey County employee not employed by the IAD, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the IAD has, or is expected to have, roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity. The CAE and IAD Chief Deputy and members of the IAD will:

- disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;
- exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
- make balanced assessments of all available and relevant facts and circumstances;
- take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The CAE and IAD Chief Deputy will confirm to the Board, and senior management, at least annually,⁸ the organizational independence of the internal audit division. The CAE and IAD Chief Deputy will disclose to the Board and senior management any interference

⁷ GAGAS, paragraph 1.19 - Objectivity

⁸ IPPF Standard #1100 – Independence and Objectivity

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and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Internal Audit Division Access to Information and Personnel

The IAD will have unrestricted access to, and communicate and interact directly with, the Board, including in private meetings without management present. The Board authorizes the IAD to:

- have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information;
- allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
- obtain assistance from necessary personnel of Monterey County, as well as other specialized services from within or outside Monterey County to complete the engagement.

Board of Supervisor and Senior Management Access to Internal Audit

A key element in the mission of the IAD is to provide objective assurance, advice, and insight. The IAD will accommodate all Board and senior management inquiries and requests including assurance and consulting services, process and data analysis, and legal and risk management support services.

Most audit and consulting projects will be derived from a county-wide risk assessment and established within the IAD's risk-based internal audit plan. Individuals desiring specific audit or consulting projects not included on the risk-based internal audit plan shall place such requests on the Board agenda for review and approval by Board majority.

Specific audit requests will be evaluated in terms of risks and exposure to the County's strategic initiatives and will be integrated in to the risk-based internal audit plan, accordingly. The CAE and IAD Chief Deputy will coordinate with the Board and senior management to determine how to best fit requested audits and/or projects into the risk-based internal audit plan.

Nature of Audit Services

The IAD will provide assurance and consulting services for Monterey County. Assurance services are an independent, objective assessment of evidence for the purpose of providing opinions or conclusions regarding an entity, operation, function, process, system, or other subject matter. The nature and scope of an assurance engagement are determined by the internal auditor based on analysis of risk to the achievement of objectives. Generally, three parties are participants in assurance services: 1) the person or group directly involved with the entity, operation, function, process, system, or other subject matter - the process owner, 2) the person or group making the assessment - the

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internal auditor, and 3) the person or group using the assessment - the user. Consulting services are generally performed at the specific request of an engagement client. They involve two parties: 1) the person or group offering the advice - the internal auditor, and 2) the person or group seeking and receiving the advice - the engagement client. The scope and objectives of consulting engagements are usually subject to agreement with the client.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, and senior management, on the adequacy and effectiveness of governance, risk management, and control processes for Monterey County. Internal audit assessments include evaluating whether:

- risks relating to the achievement of the Board's strategic initiatives are appropriately identified and managed;
- actions of Monterey County's officers, directors, employees, and contractors are in compliance with Monterey County's policies, procedures, and applicable laws, regulations, and governance standards;
- results of operations or programs are consistent with established goals and objectives;
- operations or programs are being carried out effectively and efficiently;
- established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact Monterey County;
- information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity; and
- resources and assets are acquired economically, used efficiently, and protected adequately.

The CAE and IAD Chief Deputy will report periodically to the Board and senior management regarding:

- the IAD's purpose, authority, and responsibility;
- the IAD's plan and performance relative to its plan;
- the IAD's conformance with The IIA's Code of Ethics and Standards, GAGAS, and action plans to address any significant conformance issues;
- significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board;
- results of audit engagements or other activities;
- resource requirements; and
- any response to risk by management that may be unacceptable to the Board.

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The IAD also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The IAD may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the IAD does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The IAD is responsible for serving the County of Monterey, the Board, and senior management in a manner that is consistent with IIA's Code of Ethics and *Standards* and GAGAS in compliance with Government Code Section 1236. In this context, the IAD is responsible to:

- assist in developing a County-wide risk assessment and supporting risk identification, awareness, and mitigation activities;
- submit, at least annually, to the Board and senior management a risk-based internal audit plan for review and approval;
- report, quarterly to the Board, Budget Committee and senior management, the status of the internal audit plan, moderate and high risk issues identified, and corrective actions adopted by management;
- communicate to the Board and senior management the impact of resource limitations on the internal audit plan;
- review and adjust the internal audit plan, as necessary, in response to changes in Monterey County's risks, operations, programs, systems, and controls;
- communicate to the Board, Budget Committee, and senior management and seek approval from the Board for any significant interim changes to the internal audit plan;
- ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
- follow up on engagement findings and corrective actions, and report periodically to the Board and senior management any corrective actions not effectively implemented;
- ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;
- ensure the IAD collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter;

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- ensure trends and emerging issues that could impact Monterey County, are considered and communicated to the Board and senior management as appropriate;
- ensure emerging trends and successful practices in internal auditing are considered;
- ensure adherence to policies and procedures designed to guide the IAD;
- ensure adherence to Monterey County's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to the Board and senior management; and
- ensure conformance of the IAD with IIA *Standards* and GAGAS, with the following qualifications:
 - If the IAD is prohibited by law or regulation from conformance with certain parts of the *Standards*, the IAD will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by authoritative bodies other than the IIA *Standards* and GAGAS, the IAD will ensure the IAD conforms with the *Standards*, even if the IAD also conforms with the more restrictive requirements of other authoritative bodies.

Quality Assurance and Improvement Program

The IAD will maintain a quality assurance and improvement program that covers all aspects of the IAD. The program will include an evaluation of the IAD's conformance with GAGAS and IIA *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IAD and identify opportunities for improvement.

The CAE and IAD Chief Deputy will communicate to the Board and senior management on the IAD's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from a qualified, external, peer review organization.

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Approval/Signatures

Auditor-Controller, _____
Date

Chief Deputy, Auditor-Controller,
Internal Audit Division _____
Date

Board of Supervisors Chair _____
Date

DRAFT