

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

**INTERNAL AUDIT DEPARTMENT MISSION**

The mission of the Internal Audit Department (IAD) is to provide highly reliable, independent, objective evaluations and business and financial consulting services to the Board of Supervisors (Board) and County management to assist them with their important business and financial decisions.

The IAD supports and assists the Board and County management in the realization of their business goals and objectives. The IAD's contribution to this effort is testing and reporting on the effectiveness of their internal control systems and processes. County management relies on these systems and processes for safeguarding the County's assets and resources, reasonable and prudent financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

**PROFESSIONALISM AND DEFINITION OF INTERNAL AUDITING**

The IAD will adhere to the mandatory guidance issued by the Institute of Internal Auditors (IIA), 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 describes the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit function's performance.

The IAD will adhere to County policies and the IAD's operational procedures. The IIA defines internal auditing as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**INDEPENDENCE AND OBJECTIVITY**

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. The IAD will not implement internal controls, develop procedures, install or modify systems or prepare records, or engage in any activity that will impair judgment.

The IAD will remain free from interference including matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity.

The Internal Audit Director (Director) will confirm to the Audit Oversight Committee (AOC), at least annually, the organizational independence of the internal audit function.

**ORGANIZATIONAL REPORTING**

The Director shall report directly to the Board and be advised by the AOC designated by the Board.

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

**AUDIT OVERSIGHT COMMITTEE**

The AOC is an advisory committee to the Board and provides oversight over the IAD, performance audit function, mandated audits, and external audit coverage. The AOC assists the Board in ensuring the independence of the internal audit function and that appropriate action is taken on audit findings. The AOC helps to promote and enhance effective internal controls for County operations, and serves as an important communication link between external auditors, internal auditors, and operating management.

The AOC will:

- Approve the IAD Charter.
- Approve the annual Risk Assessment and Audit Plan.
- Receive communications from the Director on the IAD activity's performance relative to its plan and other matters.

**OBJECTIVE AND SCOPE**

The objective of internal auditing is to assist the Board, County Executive Officer, and County management in the effective discharge of their fiduciary responsibilities. To this end, internal auditing furnishes them with audits, analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective internal control at reasonable costs.

The scope of internal auditing encompasses the examination and evaluation of the adequacy of the County's system of internal control. The scope of internal auditing will include:

- Reviewing the reliability and integrity of financial and business information systems and the means used to identify, measure, classify, and report such information.
- Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operation of the County and could have a significant impact on operations and financial reports and disclosures.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

The scope of internal auditing may include:

- Appraising the economy and efficiency with which resources are employed and reviewing operations and programs to determine whether results are consistent with established objectives and goals, and if operations or programs are being carried out as planned.

**AUTHORITY AND RESPONSIBILITY**

The responsibility of the IAD is to serve the County in a manner that is consistent with the Standards and with professional standards of conduct in the Code of Ethics of the Institute of Internal Auditors, Inc., as required by Government Code Section 1236.

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

In addition, when appropriate and necessary, and depending on the type of audit being conducted, the IAD follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), by the Information Systems Audit and Control Association (ISACA), and by the Government Accounting Office (GAO). In this context, the IAD is responsible for:

- Establishing policies for auditing and directing its technical and administrative functions.
- Developing and executing a comprehensive audit program for the evaluation of internal controls established over County financial and business activities.
- Assisting management in their stewardship of County resources and their compliance with established policies and procedures.
- Recommending improvements in internal control designed to safeguard County resources and to help ensure compliance with government laws and regulations.
- Reviewing procedures and accounting records for their completeness and accuracy to accomplish and report on intended objectives.
- Publishing reports on the results of audit examinations including recommendations for improvements in the internal control processes.
- Appraising the adequacy of actions taken by operating management to correct reported deficient conditions.
- Conducting special examinations and financial analyses.

**INTERNAL AUDITOR ACCESS TO INFORMATION AND PERSONNEL**

Except where prohibited by law, the Director and the IAD staff shall have complete and unrestricted access to all of the County's financial records, files, information systems, personnel, and properties. The Director shall promptly report in writing to the Chair of the AOC whenever significant barriers or resistance to access to information and personnel occurs. To protect legally confidential information, no internal audit report shall directly reference or quote confidential information that is protected.

Upon discovery of an audit involving potential or suspected financial fraud, the Director shall work with the County Counsel fraud hotline team and County Counsel for legal advice and coordination of efforts.

**BOARD OF SUPERVISORS ACCESS TO INTERNAL AUDIT**

The IAD reserves resources to accommodate Board requests. Individual Board members desiring specific audit projects shall place on the Board agenda their proposal for review and approval by Board majority. The Director reserves the right to determine how to best fit the directed review into the audit plan.

**ANNUAL RISK ASSESSMENT & AUDIT PLAN**

The Director shall be responsible for preparing an annual audit plan identifying the most productive and essential audit projects. The internal audit plan will include budget and resource requirements for the next fiscal year. The Director will communicate the impact of resource limitations and significant interim changes to the AOC. Once the AOC approves the audit plan, it will be presented to the Board for approval.

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

The internal audit plan will be developed based on a prioritization of audits using a risk-based methodology, including input from the Board, CEO, and County departments. The Director will review and adjust the plan in response to changes in the County's business, risks, operations, programs, systems, and controls. All deviations from the approved internal audit plan will be communicated to the AOC through quarterly status reports.

**AUDIT REPORTING AND FOLLOW-UP**

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

In accordance with the Standards, the Director shall establish a system to follow up on reported audit findings. The system established should include updated comments and recommendations as appropriate.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The IAD will maintain a quality assurance program and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the IAD's conformance with the Definition of Internal Auditing, Code of Ethics, and the Standards.

The Director will report the results of the IAD's quality assurance and improvement program, including external assessments to the AOC and Board.

**EFFECTIVE DATE**

This charter and the policies therein become effective immediately upon adoption by the Board of Supervisors of the County of Orange.

Date of Adoption: 2/26/2019