

**OBM**

# **Office of Internal Audit Charter**

**December 2018**

## **VISION, MISSION AND SCOPE OF INTERNAL AUDIT ACTIVITIES**

The vision of the Office of Internal Audit (OIA) within the Office of Budget and Management (OBM) is to be a highly regarded internal audit activity that adds value and mitigates risk by partnering with Ohio's state agencies and providing objective insights and innovative recommendations to improve agency operations.

OIA's mission is to provide independent, objective assurance and consulting services designed to improve operations of state agencies obtaining OIA services. OIA will help state agencies accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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 State Audit Committee and management on the adequacy and effectiveness of governance, risk management, and control processes for the state agencies within audit purview of OIA or agencies requesting OIA services pursuant to §126.45 of the Ohio Revised Code (ORC). Internal audit assessments of OIA include evaluating whether:

- Risks relating to the achievement of state agency strategic objectives are appropriately identified and managed.
- The actions of state agency directors, management, and employees are in compliance with policies, procedures, and applicable laws, regulations, and governance standards.
- The results of state agency operations or programs are consistent with established goals and objectives.
- Operations or programs at state agencies are being carried out effectively and efficiently.
- Established processes and systems at state agencies enable compliance with the policies, procedures, laws, and regulations that could significantly impact those agencies.
- State agency information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- State agency resources and assets are acquired economically, used efficiently, and protected adequately.
- Adequate controls are incorporated within new systems and processes at state agencies.

Assurance services are defined as an objective examination of evidence for the purpose of providing an independent assessment of governance, risk management, and control processes. Consulting services are advisory in nature and scope, which are agreed to by the state agency, and are intended to add value without assuming a management responsibility.

Pursuant to ORC §126.45(A), the following state agencies are served by OIA:

Adjutant General	Department of Higher Education
Office of Budget and Management	Bureau of Workers' Compensation
Department of Administrative Services	Department of Aging
Department of Agriculture	Department of Commerce
Department of Developmental Disabilities	Department of Health
Department of Insurance	Department of Job & Family Services
Department of Medicaid	Department of Mental Health & Addiction Services
Department of Natural Resources	Department of Public Safety
Department of Rehabilitation & Correction	Department of Taxation
Department of Transportation	Department of Veteran Services
Department of Youth Services	Development Services Agency
Environmental Protection Agency	Lottery Commission
Opportunities for Ohioans with Disabilities	Public Utilities Commission

Additionally, pursuant to ORC § 126.45(D), a state agency, office, or body not under the purview of OIA may request OIA to direct an internal audit of that state agency, office, or body.

## AUTHORITY

OIA is created pursuant to ORC § 126.45 and the Chief Internal Auditor, referred to herein as the Chief Audit Executive (CAE), is responsible for the administration of OIA consistent with ORC §126.45 to §126.48. The CAE will report in an advisory capacity to the State Audit Committee and administratively to the Director of OBM through the Senior Deputy Director for Services and Operations. In relation to OIA, the State Audit Committee will:

- Review and approve changes to OIA's charter after review and approval by senior management.
- Review and comment on OIA's annual risk-based plan.
- Receive communications from the CAE on OIA's performance relative to its plan and other matters.
- Discuss and consider acceptance of OIA's assurance reports at quarterly audit committee meetings.

The CAE will have unrestricted access to communicate and interact directly with members of the State Audit Committee, including in private meetings without management present when appropriate in accordance with Ohio law.

OIA is authorized to:

- Have access to all records and documents of a state agency necessary for the performance of an internal audit.

- Allocate its resources, set frequencies, select audits, determine scopes of work, and apply the techniques required to accomplish audit objectives, and issue reports.
- Obtain the necessary assistance of personnel in the state agencies where they perform audits, as well as other specialized services from within or outside the organization, in order to complete the engagement.

## **AUDIT PRACTICE PROFESSIONAL STANDARDS AND FRAMEWORKS**

OIA audit staff shall conduct internal audits in a professional, impartial, and unbiased manner. Audit staff shall avoid all conflicts of interest and behave in an ethical manner in accordance with Ohio Ethics Law and the OBM Ethics Policy. Audit staff will perform all audit work with due professional care and in accordance with the International Professional Practices Framework (IPPF) issued by The Institute of Internal Auditors (IIA).

The IPPF, effective in January 2017, contains two types of guidance:

1. **Mandatory Guidance.** The OIA internal audit activity will adhere to the IIA's Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* (the "Standards"). The IIA's mandatory guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance.
2. **Recommended Guidance.** Implementation Guidance and Supplemental Guidance (Practice Guides).

OIA shall embrace state, national and international standards, guidelines, and frameworks in the financial, risk, business process and information technology (IT) areas in order to provide accurate and relevant feedback on best practices as it conducts its assurance and consulting activities. In particular, OIA internal audit activity may embrace several frameworks including, but not limited to:

- Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Standards for Internal Control in the Federal Government (issued September 2014)
- Control Objectives for Information and Related Technology (COBIT)
- National Institute of Standards and Technology (NIST)

## **ACCOUNTABILITY**

The CAE, in the discharge of his/her duties shall perform the following:

- Submit an annual risk-based audit plan to the OBM Director and State Audit Committee for review and comment before the beginning of each fiscal year.
- Issue preliminary and/or final reports related to the processes for controlling the activities of agencies, including potential improvements to processes, and provide information concerning such issues to the State Audit Committee and the director of the state agency involved.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of OIA resources to the OBM Director and the State Audit Committee.
- Coordinate with other control and monitoring functions (Auditor of State, State Highway Patrol, Attorney General, Inspector General, Bureau of Workers' Compensation internal auditors, Lottery

Commission internal auditors, and external audits for state agencies under OIA's purview that include financial, regulatory, and SOC 1 audits).

- Report any suspected fraud or illegal activity discovered in accordance with OIA's Suspected Fraud, Abuse and Wrongdoing Process.
- Report on other significant issues that materialize outside of planned audit initiatives.

## **INDEPENDENCE AND OBJECTIVITY**

The OBM Director, with the Governor's approval, appoints the CAE, who serves at the Director's pleasure. The State Audit Committee is required to review and comment on OIA's annual audit plan. This organizational structure is designed to allow OIA to be independent and effectively accomplish its purpose.

The CAE will ensure that OIA remains free from all conditions that threaten the ability of OIA audit staff to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the CAE determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties. Additionally, the CAE will confirm annually the organizational independence and the process in place to confirm independence of OIA employees to the State Audit Committee.

OIA audit staff will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work project, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

OIA audit staff will have no direct operational responsibility or authority over any of the activities audited. Accordingly, OIA audit staff 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 the agencies within OIA's purview or agencies that request OIA services.
- Initiating or approving transactions external to OIA.
- Directing the activities of any state employee not employed within OIA, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist OIA audit staff.

Where the CAE 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.

OIA audit staff 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 will disclose to the State Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and /or communicating results.

## **RESPONSIBILITY**

The CAE has the responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including the risk for fraud, waste, or abuse of public resources within an agency or division; the length of time since a process was last subject to an internal audit; the size of a process, and any risks or control concerns identified by management.
- Submit the annual plan to the Director of OBM and State Audit Committee for review and comment.
- Communicate to the Director of OBM and the State Audit Committee the commitment and availability of OIA resources with respect to the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the business, risks, operations, programs, systems, and controls of the appropriate state agencies, or when the Director of OBM believes there to be a reason to modify the originally submitted plan, for review and comment by the State Audit Committee.
- Communicate to the Director of OBM and the State Audit Committee 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 State Audit Committee and to the Director of OBM any corrective actions that are not timely or effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure that OIA collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Issue periodic reports to the State Audit Committee and management summarizing results of audit activities.
- Ensure trends and emerging issues that could impact the state agencies within the purview of OIA or agencies that request OIA services are considered and communicated to the Director of OBM and the State Audit Committee as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered in the work of OIA.
- Establish and ensure adherence to policies and procedures designed to guide OIA.
- Ensure adherence to OBM and other applicable state policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be communicated to the Director of OBM and the State Audit Committee and resolved to the extent that there is not a conflict with Ohio law.
- Ensure conformance of OIA with the *Standards*. If OIA is prohibited by law or regulation from

conforming with certain parts of the *Standards*, the CAE will communicate the nonconformance to the Director of OBM and the State Audit Committee.

## REPORTING

The CAE shall report in the following manner:

- OIA's purpose, authority, and responsibility to the Director of OBM and the State Audit Committee.
- Present, on at least an annual basis, a summary report to the State Audit Committee of audit activities including: comparing the annual plan to completed activities; identifying the orientation and scope of such activities; identifying the schedule of work undertaken; and any changes to the annual audit plan.
- Describe OIA's conformance with The IIA's Code of Ethics, the *Standards*, and action plans to address any significant conformance issues to the Director of OBM and the State Audit Committee.
- Communicate any significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the State Audit Committee.
- Discuss any resource requirements with the Director of OBM and the State Audit Committee.
- Disclose any response to risk by management that may be unacceptable in accordance with OIA's Escalation Process policy.
- Provide for the appropriate Release of Audit Reports and Memorandums as follows:
  - After the conclusion of an internal audit, submit a preliminary report of OIA's observations and recommendations to the State Audit Committee, the director of the state agency involved, and the OBM Director if deemed necessary. The state agency shall be provided an opportunity to respond within thirty days after receipt of the preliminary report. Any response appropriately received by OIA within that thirty day period shall be included in the final report of the internal audit's observations and recommendations. The final report (assurance report) shall be issued within thirty days after the termination of the thirty-day response period. The assurance reports will focus on the design and/or effectiveness of internal controls.
  - OIA may participate in consulting engagements in accordance with the Institute of Internal Auditors' *Standards*. These engagements will not result in a final report; however, a consulting memorandum will be completed and the State Audit Committee will receive an executive summary of the status and results of the engagements.
  - Copies of the final assurance reports shall be submitted to the State Audit Committee, the Governor, and the director of the state agency involved with final assurance reports that are public records made available for public inspection in a timely manner.
- Present, on at least an annual basis, a report to the State Audit Committee regarding agency management's implementation of observations made by OIA.
- Prepare and submit an annual report to the Governor, the President of the Ohio Senate, the Speaker of the Ohio House of Representatives, the Auditor of State, and provide the report to OBM's Communications division in order to make the report available to the public by posting it on OBM's website before the first of August of each year.

The CAE also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. OIA may perform advisory and related client service activities, the nature and scope of which will be agreed with the agency client, provided OIA 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.

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

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

The CAE and/or designee will communicate to the Director of OBM and the State Audit Committee on OIA's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside state government.

OIA will also perform an annual assurance review of the internal audit activities performed at the Bureau of Workers' Compensation and the Ohio Lottery Commission since OIA relies upon the audit work completed by those internal audit departments. OIA will also periodically review the working papers of the internal audit activities at the Bureau of Workers' Compensation and the Ohio Lottery Commission as appropriate, the results of which will be communicated, on at least an annual basis, to agency management and the State Audit Committee.

**APPROVED: December 13, 2018**

**Larry Long, Chair, State Audit Committee**  
**Timothy Keen, Director, Office of Budget and Management**  
**Cindy Klatt, Chief Audit Executive, Office of Internal Audit**