

# CHARTER FOR THE OFFICE OF INTERNAL AUDIT

## **Introduction**

The internal audit activity is established by the HISD Board of Education. The internal audit activity's responsibilities are defined by the Board as part of their oversight role. The Office of Internal Audit is comprised of two independent functions, i.e., Internal Audit and Ethics and Compliance. This charter is focused on Internal Audit.

## **Purpose and Mission**

The purpose of HISD's internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve HISD's operations. The mission of the Office of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. The internal audit activity helps HISD to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

## **Standards for the Professional Practice of Internal Auditing**

The internal audit activity will govern itself by adhering to the mandatory elements of the Institute of Internal Auditor's International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing (Standards), and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to the Board and senior management regarding the internal audit activity's conformance to the Code of Ethics and the Standards.

The mandatory guidance, as described above, constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide us during our audits. In addition, the internal audit activity will adhere to HISD's policies and procedures and the internal audit activity's standard operating procedures manual.

Since HISD receives federal funds, the Office of Internal Audit will also perform its work in accordance with Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the United States Government Accountability Office. In addition, we will adhere to the requirements of Module 4, Auditing in the Financial Accountability System Resource Guide (FASRG), as required by the Texas Education Agency, and any special auditing and reporting guidelines as may be required by the Texas State Comptroller's Office, or any other regulatory or oversight authority. The auditing standards that need to be applied depend upon the nature of each audit.

## **Authority**

The internal audit activity, with strict accountability for maintaining confidentiality and safeguarding records and information in compliance with applicable laws and any court or administrative orders, is authorized full, free, and unrestricted access to any and all of HISD's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the Board and Superintendent.

The Chief Audit Executive will report functionally to the Board and administratively to the Superintendent. The Chief Audit Executive will work collaboratively with the Board Audit Committee in the discharge of the Committee's duties and responsibilities. The Audit Committee's duties and responsibilities are detailed in the Audit Committee Charter.

The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with the Board, including in closed session as authorized by law and between Board meetings as appropriate.

The Board authorizes the internal audit activity to

- Have full 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, and any restrictions imposed by relevant laws and/or court or administrative orders.
- Allocate resources consistent with the Board-approved budget, set frequencies, select subjects, determine scope of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance, consistent with Board policies and applicable and state and federal law, from necessary personnel of the Houston Independent School District (HISD), as well as other specialized services from within or outside of HISD in order to complete each audit engagement.

## **Independence and Objectivity**

The Chief Audit Executive will ensure that the internal audit activity will remain 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, or report content to permit maintenance of a necessary independent and objective mental attitude. Unless approved by the Board, internal auditors will have no direct operational responsibility or authority over any of the activities audited (except for the Ethics and Compliance Department that reports directly to the Chief Audit Executive). 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 HISD or its affiliates.
- Initiating or approving transactions external to the internal audit activity.

- Directing the activities of any HISD employee not employed by the Office of Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Where the Chief Audit Executive 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. Accordingly, internal auditors 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 Chief Audit Executive will confirm to the Board, at least annually, the organizational independence of the internal audit activity, as described above. If audits of the Ethics and Compliance Department are warranted, assurance engagements will be overseen by a party outside of internal audit.

The Chief Audit Executive will disclose to the Board any interference and related implications in *determining the scope of internal auditing, performing work, and/or communicating results.*

### **Scope of Internal Audit Activities**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating risk exposure related to achieving the organization's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems and internal controls established to ensure compliance with policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.

- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Performing general audits, analytical reviews, or investigative audits by applying various audit techniques and procedures to evaluate the system of internal controls and/or for the detection of fraud or deterrence to fraud.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

The Chief Audit Executive will report periodically to the Board and senior management regarding:

- The internal audit activity's purpose, authority, and responsibility. (Triennially)
- The internal audit activity's plan and performance relative to its plan. (Quarterly)
- The internal audit activity's conformance with The IIA's Code of Ethics and Standards, and action plans to address any significant conformance issues. (Annually)
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the board. (As needed)
- Results of audit engagements or other activities. (As needed)
- Resource requirements. (As needed)
- Any response to risk by management that may be unacceptable to HISD. (As needed)

The Chief Audit Executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity 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 Chief Audit Executive has the responsibility to:

- Submit, at least annually, to senior management and the board a risk-based internal audit plan for review and approval. and a copy shall be provided to senior management. The

Chief Audit Executive will work collaboratively with the Audit Committee for input to create the internal audit plan. The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input and collaboration with senior management, the Audit Committee, and the Board.

- Communicate to senior management and the board the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in HISD's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the board 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 senior management and the board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact HISD are considered and communicated to senior management and the board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to HISD's policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the board.
- Ensure conformance of the internal audit activity with the Standards.
- Submit a written report following the conclusion of each internal audit engagement and distribute to others as appropriate. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared,

which is also monitored through the audit dashboard.

**Quality Assurance and Improvement Program**

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the IIA IPPF framework and an evaluation of whether internal auditors apply the Code of Ethics, and other applicable professional standards. The program will also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Audit Committee on the internal audit activity'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 HISD.

Internal Audit Activity Charter:

Approved this 10<sup>th</sup> day of Dec., 2020.

Garland W. Blackwell

Garland Blackwell, Chief Audit Executive

Sue Deigaard

Sue Deigaard, President of the Board

Patricia Allen 10/14

Patricia Allen, Secretary of the Board