

## INTERNAL AUDIT CHARTER

(March 2023)

### I. Introduction

This Internal Audit Charter establishes the purpose, authority, responsibility, reporting lines, and protocols of the internal audit section of the Napa County Auditor-Controller's Office (Internal Audit).

### II. Purpose and Mission

The *purpose* of Internal Audit is to provide senior management and the Board of Supervisors with independent, objective assurance and consulting services designed to add value and improve Napa County's operations.

The *mission* of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Internal Audit helps senior management and the Board of Supervisors accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and internal control processes.

### III. Standards for the Professional Practice of Internal Auditing

Internal Audit shall govern itself by adherence to the mandatory elements of *California Government Code Section 1236* which states that all county employees that conduct...audit activities shall conduct their work under the general and specified standards prescribed by The Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate.

The standards generally provide as follows:

- Auditors should be independent of the activities they audit.
- Audits should be performed with proficiency and due professional care.
- Scope of the audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.
- Audit work should include planning the audit, examining and evaluating information, communicating results, and following up.
- Chief Auditor should properly manage the auditing department (Internal Audit).

The internal audit function adopts The Institute of Internal Auditors' International Professional Practices Framework which includes:

- *International Standards for the Professional Practice of Internal Auditing (Standards)*
- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics

Other appropriate authoritative guidance, pronouncements, and regulations shall be considered when applicable.

The Chief Audit Executive (also referred to as Auditor-Accountant Manager or Internal Audit Manager) shall report periodically to the Auditor-Controller and the Board of Supervisors regarding Internal Audit's conformance to the *Standards* and the Code of Ethics.

#### **IV. Authority**

*California Government Code Section 1237* requires "all state and local agencies with an aggregate spending of fifty million dollars or more annually shall consider establishing an ongoing audit function."

*Napa County Resolution 2012-40* initially established the Internal Audit Policy under the Auditor-Controller's Office within the County Policy Manual. Part 1, Section 6B.

The Board of Supervisors *authorizes* Internal Audit to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Board of Supervisors, County Executive Officer, and Auditor-Controller.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

Additional authority for the internal audit function can be found from California Government Codes including:

- *California Government Code Section 26881* – For counties that have an office of controller, "the auditor-controller shall be the chief accounting officer of the County. Upon order of the board of supervisors, the...auditor-controller shall prescribe, and shall exercise a general supervision, including the ability to review departmental and countywide internal controls, over the accounting forms and the method of keeping the

accounts of all offices, departments and institutions under the control of the board of supervisors and of all districts whose funds are kept in the county treasury.”

- *California Government Code Section 26883* - the Board of Supervisors has the power to “enter into contracts for audits” and to “require that the county auditor-controller shall 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 of supervisors and, if the report discloses fraud or gross negligence, a copy thereof shall be filed with the district attorney.”
- *California Government Code Section 26884* - the Board of Supervisors may elect to “require the county auditor-controller perform the additional services authorized by this chapter.” In doing so, the Board of Supervisors “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.”
- *California Government Code Section 26885* - requires that the “provision of this chapter shall become operative only upon their adoption by a resolution passed by a unanimous vote of the board of supervisors at a regular meeting at which all members are present. Any resolution adopted pursuant to this section may be repealed by the board of supervisors at any time by a three-fifths vote.”

## V. Organizational Independence

Organization independence requires reporting to a level within the organization that allows Internal Audit to fulfill its responsibilities and to be free from interference in determining the scope of internal auditing, performing work, and communicating results.

To establish, maintain, and assure that Internal Audit has sufficient independence to fulfill its duties, the Chief Audit Executive shall report *administratively* (i.e., day-to-day operations) to the Auditor-Controller and *functionally* to the Board of Supervisors. Internal Audit achieves organizational independence via election of the Auditor-Controller by the residents of Napa County.

The *Board of Supervisor’s responsibilities* include the following:

- Approve the internal audit charter.
- Approve the risk-based annual audit plan.
- Approve the internal audit budget and resource plan through the County’s annual countywide budget process.
- Receive communication from the Chief Audit Executive on Internal Audit’s performance relative to its plan and other matters.

- Make appropriate inquiries of management and Chief Audit Executive to determine whether there are resource limitations, or the scope is inappropriate.
- Ensure satisfactory resolution of all significant audit observations.

Annually, the Chief Audit Executive shall confirm to the Board of Supervisors the organizational independence of Internal Audit.

## **VI. Independence and Objectivity**

The Chief Audit Executive shall ensure that Internal Audit 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 Chief Audit Executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment shall be disclosed to appropriate parties.

To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit function, Internal Audit shall have direct and unrestricted access to senior management and the Board of Supervisors and to all functions, records, property, and personnel pertinent to carrying out any engagement subject to accountability for confidentiality and safeguarding of records and information.

Internal auditors shall 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.

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

- Perform any operational duties for the County or its affiliates.
- Initiate or approve accounting transactions external to the internal auditing department *except* when no other deputized manager is available to do so.
- Direct the activities of any County employee not employed by Internal Audit *except* to the extent such employees have been appropriately assigned to Internal Audit or to otherwise assist Internal Audit.

Where the Chief Audit Executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards shall be established to limit impairments to independence or objectivity.

Internal Audit shall:

- 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 shall disclose to senior management, Auditor-Controller, and the Board of Supervisors any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## **VII. Nature of Audit Work**

Internal Audit workload may include:

- *Assurance Engagements* - an objective assessment of evidence and an independent opinion or conclusion regarding an operation, function, process, system, or other subject matter; such audits may focus on the reliability of financial or operating information, on systems of internal control over record keeping, and/or the safeguarding of assets to ensure systems are adequate and effective; these audits may also include review of structures established to ensure compliance with policies, plans, procedures, laws, and regulations; engagements include:
  - *Financial Audits* - examine whether financial related items such as funds, accounts, or transactions are a fair and accurate representation of the transactions they claim to represent.
  - *Performance Audits* - examine the use of resources to evaluate whether those resources are being used in the most effective and efficient manner.
  - *Compliance Audits* - examine conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, contracts, or other requirements that govern the conduct of the area, process, or system subject to audit.

- *Internal Control Reviews* - assess internal controls established by management through the analysis of programs, policies, and procedures and their efficiency and effectiveness.
- *Follow up Audits* - a process in which Internal Audit performs validation testing procedures to determine the adequacy, effectiveness and timeliness of corrective actions taken by management on reported observations and recommendations.
- *Consulting Engagements* - advisory in nature and are generally performed at the specific request of a client; the nature and scope of the consulting engagement are subject to agreement with the client; internal Audit can perform custom designed reviews, offer considerations to improve the efficiency and effectiveness of operating areas, and assist management with special requests; results are restricted to internal recipients.
- *Investigations* - examine reported alleged instances of fraud, waste, and abuse.
- *Special Projects* - assignments are typically limited in scope.

## **VIII. Scope of Internal Audit Activities**

The *scope* of internal audit activities encompasses objective examinations of evidence for the purpose of providing independent assessments to senior management and the Board of Supervisors on the adequacy and effectiveness of governance, risk management, and internal control processes for Napa County.

Internal Audit assessments may include evaluating whether:

- Risks relating to the achievement of Napa County's strategic objectives are appropriately identified and managed.
- The actions of Napa County's officers, directors, employees, and contractors are in compliance with Napa County's policies, procedures, and applicable laws, regulations, and governance standards.
- The 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 Napa County.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

Opportunities for improving the efficiency of governance, risk management, and internal control processes may be identified during engagements. These opportunities will be communicated to senior management, the Auditor-Controller, and the Board of Supervisors.

The Chief Audit Executive coordinates activities, where possible, and consider relying upon the work of other internal and external assurance and consulting service providers as needed.

## **IX. Responsibility**

The Chief Audit Executive has the responsibility to:

- Ensure Internal Audit 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 Napa County are considered and communicated to senior management and the Board of Supervisors as appropriate.
- Establish and ensure adherence to policies and procedures designed to guide Internal Audit.
- Ensure adherence to Napa County's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts shall be resolved or otherwise communicated to the Auditor-Controller and the Board of Supervisors.
- Ensure conformance of Internal Audit with the *Standards* with the following qualifications:
  - If Internal Audit is prohibited by law or regulation from conformance with certain parts of the *Standards*, the Chief Audit Executive shall ensure appropriate disclosures and conformance with all other parts of the *Standards*.
  - If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, the Chief Audit Executive shall ensure that Internal Audit conforms with the *Standards*, even if Internal Audit also conforms with the more restrictive requirements of other authoritative bodies.

The Chief Audit Executive also has a responsibility to periodically report to the Auditor-Controller and the Board of Supervisors regarding:

- Internal Audit's purpose, authority, and responsibility (i.e., internal audit charter).
- Internal Audit's annual plan and performance relative to its annual plan.

- Internal Audit's conformance with The Institute of Internal Auditor's (IIA)'s Code of Ethics and the *Standards*, and corrective action plans to address any significant conformance issues.
- Results of audit engagements or other activities.
- Resource requirements.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Auditor-Controller or the Board of Supervisors.
- Any response to risk by management that may be unacceptable to Napa County.

## **X. Internal Audit Plan**

The Chief Audit Executive shall submit to the Board of Supervisors for review and approval, a risk-based internal audit plan of proposed engagements. The internal audit plan shall be based on a documented risk assessment.

To develop a documented risk assessment, the Chief Audit Executive shall consider factors such as the department's budget, employee turnover, time since last audit, prior audit findings, risk exposure, laws and regulations, policies and procedures, control environment, and timing and staffing resources available. The Chief Audit Executive shall also consider input from senior management and the Board of Supervisors.

The Chief Audit Executive shall:

- Communicate to the Auditor-Controller and the Board of Supervisors the impact of any resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in Napa County's business, risks, operations, programs, systems, and controls.
- Communicate to the Auditor-Controller and the Board of Supervisors any significant interim changes to the internal audit plan.
- Ensure engagements listed in 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 written communication of engagement results, conclusions, and recommendations to appropriate parties as applicable.



## **XI. Reporting and Monitoring**

A written report shall be issued by the Auditor-Controller on behalf of Internal Audit following the conclusion of each audit engagement listed on the annual plan and shall be communicated as appropriate. At minimum, the engagement's objectives, scope, and results shall be communicated to the Board of Supervisors.

During audit engagements, observations (i.e., findings/non-compliance) may be identified and recommendations for improving the efficiency of governance, risk management, and control processes may be provided. The Chief Audit Executive shall establish a follow-up process that is designed to ensure that departments, offices, or agencies are taking appropriate and timely corrective action to address Internal Audit's observations and to implement their recommendations. Senior management shall provide written responses to observations and recommendations including an explanation of the corrective action taken or not to be taken.

For corrective action to be taken, management's written response shall include anticipated completion of corrective action and identify process owner responsible for the corrective action. For any corrective action that is not implemented, an explanation shall be provided along with management's acceptance of the risk of not taking action. Internal Audit shall review management's reported corrective action and supporting documentation and report the results to the Board of Supervisors.

All significant observations shall remain open until cleared. The Board of Supervisors are primarily responsible for ensuring satisfactory resolution of all significant audit observations and shall work with departments, offices, or agencies to ensure satisfactory resolution of all significant audit observations.

## **XII. Quality Assurance and Improvement Program**

Internal Audit shall maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of Internal Audit's activity. The Quality Assurance and Improvement Program shall include an evaluation of Internal Audit's conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the Code of Ethics, identify successful internal audit practices and opportunities for improvement, and assess the efficiency and effectiveness of the internal audit function.

The Chief Audit Executive shall communicate to the Board of Supervisors on Internal Audit's Quality Assurance and Improvement Program, including results of internal assessments (both ongoing and periodic) and external assessments (to be performed by a qualified independent auditor at least once every five years).