

COOK COUNTY  
HEALTH



# Audit and Compliance Committee

## Internal Audit

June 19, 2020



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Internal Audit



Open Meeting

Internal Audit Charter



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# Internal Audit Charter

(The following 3 slides are excerpts from the Institute of Internal Auditors (IIA) Practice Standards)

## INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

### Attribute Standards

#### 1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. **The chief audit executive (CAE) must periodically review the internal audit charter and present it to senior management and the board for approval.**

#### Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. **Final approval of the internal audit charter resides with the board.**

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## 1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. **The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.**

### Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- ❑ Approving the internal audit charter;
- ❑ Approving the risk based internal audit plan;
- ❑ Approving the internal audit budget and resource plan;
- ❑ Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- ❑ Approving decisions regarding the appointment and removal of the chief audit executive;
- ❑ Approving the remuneration of the chief audit executive; and
- ❑ Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

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## Considerations for Implementation

Based on this foundational work, the CAE (or a delegate) drafts an internal audit charter. The IIA offers a model internal audit activity charter that may be used as a guide. Although they vary by organization, charters typically include the following sections:

**Introduction** – to explain the overall role and professionalism of the internal audit activity, citing the relevant elements of the International Professional Practice Framework (IPPF).

**Authority** – to specify the internal audit activity’s full access to the records, physical property and personnel required to perform its engagements and to declare its accountability for safeguarding assets and confidentiality.

**Organization and Reporting Structure** – to document the CAE’s reporting structure. The CAE reports functionally to the board and administratively to a level within the organization that allows the internal audit activity to fulfill its responsibilities. This section may delve into specific functional responsibilities, such as approving the charter and audit plan, and hiring, compensating, and terminating the CAE; as well as administrative responsibilities, such as supporting information flow within the organization or approving human resource administration and budgets.

**Independence and Objectivity** – to describe the importance of internal audit independence and objectivity and how these will be maintained, such as prohibiting internal audit from having operational responsibility or authority over areas audited.

**Responsibilities** – to lay out major areas of ongoing responsibility, such as defining the scope of assessments, writing an audit plan and submitting it to the board for approval, performing assessments, communicating the results, providing a written audit report, and monitoring corrective actions taken by management.

**Quality Assurance and Improvement** – to describe the expectations for maintaining, evaluating, and communicating the results of a quality program that covers all aspects of the internal audit activity.

**Signatures** – to document the agreement between the CAE, a designated board representative, and the individual to whom the CAE reports, with the date, name, and title of signatories.

Thank you. 



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