

External Quality Assessment of the Internal Audit Activity at



June 2013



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EXECUTIVE SUMMARY

As requested by the chief audit executive (CAE), The Institute of Internal Auditors, Inc. (IIA) conducted an external quality assessment (QA) of the internal audit activity (IA activity) of Nalcor Energy. The principal objectives of the QA were to assess the IA activity's conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the IA activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of Nalcor Energy's management), and identify opportunities to enhance its management and work processes, as well as its value to Nalcor Energy.

OPINION AS TO CONFORMANCE TO THE STANDARDS

It is our overall opinion that the IA activity generally conforms to the *Standards and Definition of Internal Audit*. For a detailed list of conformance to individual *Standards*, please see Attachment A. The QA team identified opportunities for further improvement, details of which are provided in this report.

The IIA *Quality Assessment Manual* suggests a scale of three ratings, "*generally conforms*," "*partially conforms*," and "*does not conform*." "Generally Conforms" is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to impair seriously or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

SCOPE AND METHODOLOGY

As part of the preparation for the QA, the IA activity provided an advance document with detailed information and sent out surveys to a representative sample of Nalcor Energy executives. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the IA activity. Prior to commencement of the onsite work by the QA team on June 3, 2013, the team leader conducted a preliminary meeting with the CAE to gather additional background information, select executives for interviews during the onsite field work, and finalize planning and administrative arrangements for the QA. As a part of the review, extensive interviews were held with Nalcor Energy's Audit Committee Chairmen, executives (including heads of operating and support divisions), external auditors, and IA activity staff. Also reviewed were the IA activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA activity's working papers and reports.



OBSERVATIONS AND POSITIVE ATTRIBUTES

The IA activity is taking progressive actions to improve adherence to the *Standards*, employ useful audit tools, and implement appropriate practices to meet management and board expectations. Some successful practices observed were:

- An assurance framework was recently developed by Internal Audit to map assurance coverage against the key risks in the organization.
- Internal Audit has used technology-based audit techniques to develop data in support of management.
- Participation in professional organizations is encouraged and supported.
- The Audit Manual is comprehensive and is mapped to the IIA *Standards*.

Consequently, comments and recommendations are intended to build on this foundation already in place within the IA activity.

RECOMMENDATIONS

Recommendations are provided that relate to the IA activity's structure, staffing, deployment of resources, and similar matters that should be implemented within the IA activity, with support from senior management.

Highlights of the more significant recommendations are set forth below, with details in the main body of the report.

ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

1. **Update the Internal Audit Charter** to reflect the mandatory nature of the Definition of Internal Auditing, Code of Ethics, and *Standards* and include all current IA responsibilities; document formal approval of the Charter by the Audit Committee. (Standards 1000 and 1010)
2. **Complete a staffing analysis annually** and present the results to senior management and the Audit Committee for review. (Standard 2030)
3. **Revise the training policy and maintain a skills matrix** and a consolidated record of training to facilitate matching auditor skills to audit engagements and identifying future training needs. (Standard 1230)
4. **Develop a comprehensive Information Technology (IT) audit strategy** for covering all areas of IT risk. (*Standard 2030, GTAGs 4, 11, 15*)
5. **Perform periodic internal quality assessments** that determine the level of conformance with the Definition, *Standards*, and Code of Ethics. (Standard 1311)
6. **Determine the IA activity's role in assessing organizational governance** through discussion with the Audit Committee. (Standard 2110, Practice Guide *Assessing Organizational Governance in the Private Sector*)



7. **Improve consistency of audit work papers** to document engagement planning, objectives, resource allocation, work programs, and supervisory review. (Standards 2200, 2201, 2210, 2230, 2240, and 2340)
8. **Continue to refine the planning and risk assessment process** to focus the department's auditing activities on the highest risk areas for adding value to the company. (Practice Advisory 2010-1)
9. **Consider removing low-risk items from reporting to senior management and the Audit Committee** after establishing a method for consistently rating findings. (Practice Advisory 2500-1)
10. **Revise the Audit Manual** to include standardized documentation requirements and review and approval requirements for audit engagements. (Practice Advisory 2040-1)

Thank you for the opportunity to be of service to Nalcor Energy. The QA team will be pleased to respond to further questions concerning this report and to furnish any desired information.

A handwritten signature in blue ink that reads "Dennis M. Svitek".

Dennis Svitek, CIA, CISA, CPA, CPEA
Team Leader

A handwritten signature in blue ink that reads "Debi Roth".

Debi Roth, CIA
Director, Quality
The Institute of Internal Auditors

Team Members:

Robert C. Riegel, CIA, CISA, CFE, CRMA, CFSA
Paula Parker, CIA



OBSERVATIONS AND RECOMMENDATIONS

ISSUES SPECIFIC TO THE INTERNAL AUDIT ACTIVITY

1. Update the Internal Audit Charter

The Internal Audit Charter is not reviewed annually unless there are proposed changes. The current Charter was put into place in 2008 following recommendations in the previous external assessment and has not been updated since. The Charter does not mention the mandatory elements of the International Professional Practices Framework (IPPF) as required by Standard 1010. There is no evidence that the Charter was approved by the Audit Committee and Senior Management, as required by Standard 1000. The Nalcor Energy Audit Committee Charter indicates that the Committee will review the Charter but does not specifically mention approval. (A Model Internal Audit Charter is included as Attachment B)

Recommendation

Update the Internal Audit Charter to reflect the mandatory nature of the Definition of Internal Auditing, Code of Ethics, and Standards. Add responsibility for monitoring and evaluating risk management and governance processes; confirming to the board, at least annually, the organizational independence of the internal audit activity; and evaluating risk exposure relating to achievement of the organization's strategic objectives.

CAE should ensure the IA Charter is periodically reviewed and approved by Senior Management and the Audit Committee. Document the formal approval of the Charter by the Audit Committee.

Internal Audit Response

The Internal Audit Charter will be updated to reflect your recommendations and presented to the Audit Committee at their next meeting for approval. We will also propose a change to Audit Committee Charter whereby the frequency of review of the Internal Audit Charter by the Audit Committee is specified.

2. Complete a Staffing Analysis

Sufficiency of staffing resources to meet the annual audit plan requirements and stakeholder expectations has been informally discussed within the IA activity, but a formal staffing analysis has not been prepared and presented to senior management and the Audit Committee. Although Nalcor has experienced significant growth and has expanded into new lines of business over the past several years, IA activity resources have remained the same. Surveys and interviews revealed concerns regarding staff adequacy. The CAE has undertaken an analysis of staffing, and this needs to be completed this year and refreshed annually.



Standard 2030 states, "The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan." The Interpretation to the Standard states that "sufficient refers to the quantity of resources needed to accomplish the plan."

Recommendation

Present an annual staffing analysis to senior management and the Audit Committee for review. Consider using outside service providers to supplement staff resources and expertise, as necessary to accomplish the risk-based plan.

Internal Audit Response

The presentation of a complete resourcing analysis is planned for this year, coincident with the presentation of the 2014 Audit Plan. Management and the Audit Committee were formally advised of this intended course of action in February of this year. At that time, the following task sequence was outlined:

1. Examine workload associated with revised Audit Plan and identify resource constraints
2. Formulate strategies to address constraints
3. Advise CEO and Audit Committee of any potential resourcing issues and recommended strategies to address

The Audit Committee and Leadership are well aware of the resourcing challenges that we currently face and fully endorsed the above proposed action plan. Since February, it has become apparent that a more robust understanding of the workload associated with a revised 5 Year Audit Plan is necessary in order to prepare a comprehensive resource plan. This would include an understanding of the workload associated with the provision of assurance oversight services to the Lower Churchill Project.

To this end, Task # 1 will be completed coincident with the completion of the 2014 - 2018 Audit Plan, scheduled for completion later this year. To facilitate this effort, since February, a complete revision to audit planning procedures was drafted and incorporated into the Internal Audit Manual. These revised procedures will govern this year's planning effort and are expected to result in a more complete statement of Nalcor Energy's audit universe for audit planning purposes.

In addition to ensuring a more complete audit universe, the revised planning procedure also calls for an assessment of risk associated with each audit utilizing the Corporation's Enterprise Risk Management Toolset. This should result in a better understanding of the risks associated with each auditable item, thereby facilitating audit prioritization. To this end, in consultation with Executive Management and the Audit Committee, we will establish what we consider to be an appropriate statement of risk thresholds to govern the decision to include or not to include audit universe items in the 5 Year Audit Plan.

Task #'s 2 & 3 will be facilitated by a solid understanding by all parties of the audit work that is and is not included in the scope of the 5 Year Audit Plan.



3. Revise the Training Policy and Maintain a Skills Matrix

Although the IA activity generally possesses the skills necessary to carry out its responsibilities, there is no defined process in place to establish training needs or minimum training requirements. There is no consolidated report of training or matrix of audit skills. Required training could focus on the needs of the organization, such as construction auditing, IT audit, oil and gas, and joint venture. The CAE has begun to develop a competency assessment of the IA team against an IIA competency map.

Recommendation

Finalize the competency analysis and revise the IA policy on training to:

- *Take into account professional development and training efforts needed for the organization, including a minimum number of training hours each year.*
- *Develop a critical skills and knowledge matrix to guide training and development.*
- *Track completed training and report results to management and the audit committees.*

Internal Audit Response

As you indicated, work has already begun on completing a competency analysis of the Internal Audit resources. Each team member has responsibility for completing a self-assessment of their skills and abilities against the IIA competency map. A timeline for completion has been established with periodic meetings scheduled to discuss milestone results.

The resulting document will serve as a skills matrix for each team member that will not only guide their professional development, but also ensure a better match between the Audit Plan and the necessary skills to deliver on it. This will prompt specific training and also highlight audit areas where co-sourcing might be the better solution than a complement increase.

4. Develop a Comprehensive Information Technology Audit Strategy

Information technology (IT) auditable units are not reflected in the audit universe. IT audit coverage has been limited over the past several years. Global Technology Audit Guide (GTAG) 11 states, "One of the first steps to an effective IT audit plan is to define the IT universe, a finite and all-encompassing collection of audit areas, organizational entities, and locations identifying business functions that could be audited to provide adequate assurance on the organization's risk management level."

Although IT management uses ITIL, a service-focused framework, to address some IT risks, a more comprehensive tool such as COBIT, the IT governance and control framework, should be considered by IA. GTAG 11 suggests the use of a control framework to assess IT risks on an annual basis. Using the COBIT framework on an annual basis would help ensure all IT components, as well as new and emerging technologies and risks, are identified and evaluated.



The audit staff does not include a qualified and certified IT auditor, and outside service providers have not been used for IT audit topics. Based on these circumstances, the staff is not currently sufficiently positioned to provide effective IT audit coverage. (GTAG 4, Section 6.2, discusses IT Audit Resource Management.)

IA does not regularly attend any IT committee meetings, such as IT project management, IT security, enterprise architecture, etc. Regular attendance at one or more IT meetings would help ensure IA is aware of ongoing developments and risk issues. GTAG 15 states that Internal Audit should participate in ongoing dialogue with the Information Security Governance activity to ensure that substantial organizational and risk changes are being addressed in a timely manner.

Recommendation

Develop an IT audit universe, IT risk assessment, and IT audit plan. Consider use of the COBIT framework in collaboration with IT. Also consider, based on the assessment, adjusting IT audit resources. Give consideration to building the relationship with IT toward participation in future IT committee meetings.

Internal Audit Response

We agree that the IT area requires a greater audit focus and in fact the Audit Committee specifically requested that IT be considered in this year's audit plan. As it was not highlighted as a specific item in the original draft, 100 hours of contingency time was earmarked for some attention to this audit area.

Our intent for 2013 is to conduct a high level review of IT governance processes within the Corporation and to consider next steps for future IT audit work. This may include increased involvement of the Manager Internal Audit in key IT planning meetings identified as a result of our governance review.

In addition, as part of the recent modifications to the Internal Audit planning policy C.1, it is now a specific requirement for the Manager IA to examine the Information Systems work plan when building the audit universe and to highlight emerging risks and identify advisory opportunities. These new planning steps should aid in bringing a new focus to the IT function.

5. Perform Periodic Internal Quality Assessments

The Internal Audit Manual defines a Quality Assurance and Improvement Program (QAIP) for the Nalcor IA activity. It includes provision for both ongoing and periodic internal assessments as well as external at least every five years. Reporting results of the QAIP to the Audit Committee and the Leadership Team is also stated.

Although the IA activity has reviewed its procedures with respect to the *Standards*, it has not performed a periodic internal assessment of actual practices to evaluate the level of conformance to the *Standards*. Standard 1311 states: Periodic reviews are assessments



conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

Recommendation

Perform periodic internal quality assessments that determine the level of conformance with the Definition, Standards, and Code of Ethics. Report results of those internal quality assessments to the Audit Committees and Senior Management.

Internal Audit Response

During this year, a full review of conformance with the Standards was completed. Gaps as identified during this review were documented, prioritized and an action plan compiled. In the next periodic internal QA we will specifically state the level of conformance to each of the Standards as an added level of due diligence.

6. Determine Internal Audit's Role in Assessing Organizational Governance

Although IA has had limited involvement in governance activities at Nalcor, there have not been any audits of governance processes. The IA activity can help an organization achieve its objectives by helping improve governance processes. *Standard 2110* states that the internal audit activity must assess and make appropriate recommendations for improving the governance process. IIA Practice Guide *Assessing Organizational Governance in the Private Sector* states that the CAE should discuss and reach an agreement with the Audit Committee on internal audit's role in assessing organizational governance.

Recommendation

Discuss with the Audit Committees the IA activity's role in assessing organizational governance.

Internal Audit Response

We agree that an enhanced focus on governance is necessary and as a result of our own review as referenced in our response to Item # 5 above, this gap as it pertains to governance was previously identified. Specifically, our review referenced the IIA publication "Implementing the International Professional Practices Framework - Updated 3rd Edition", which specifically addresses Standard 2110. Our action plan as it pertains to "governance" and as stated in the results of our review, was to consider governance coverage in next edition of our 5 Year Audit Plan and to include various aspects of governance using the detailed listing of possible audit areas for guidance as noted on Page 138 of the IIA Standards Implementation Manual.

7. Improve Consistency of Audit Work Papers

Work papers reviewed were inconsistent in documenting audit procedures followed during the respective engagements. For certain of the engagements, the following issues were noted:



- Engagement planning was not well-documented, and an engagement risk assessment was not consistently included. (Standard 2201)
- Objectives for the engagements were not consistently recorded. (Standard 2210)
- The engagement budget remains unchanged after completion of preliminary planning, even though there may be a significant change to the scope of the work. (Standard 2230)
- Supervisory approval of the audit work programs prior to commencement of field work was not evident. (Standards 2240 and 2240.A1)
- Supervisory approval of work papers prior to issuance of the audit report was not evident. (Standard 2340 and Interpretation)

Recommendation

Consistently follow working paper procedures to:

- *Document engagement planning.*
- *Record audit objectives.*
- *Document changes to the scope of work and the impact to the engagement budget.*
- *Indicate supervisory approval of the engagement work program before start of field work.*
- *Indicate supervisory approval of work papers before issuance of the audit report.*

Internal Audit Response

In recent file reviews, these issues have been noted and a number of actions have already been taken, specifically:

1. Engagement Planning - Auditors are now expected to utilize the Corporate Enterprise Risk Management Toolset when assessing not only the risk of the audit itself, but also that of individual issues arising therefrom. While the assessment of the risk associated with the audit as a whole is generally done as part of the preparation of the overall 5 Year Audit Plan, the auditor in charge is now expected to reassess this rating following completion of their Preliminary Survey Checklist.

2. Audit Objectives - Auditors are now expected to reference each audit objective and then link those references to the proposed audit program. This should ease not only the reviewer's assessment of the linkages between the proposed audit program and the stated objectives, but also the determination of whether the audit program is adequate to address the stated audit objectives.

3. Scope Changes and Budget Implications - In the revised audit planning procedures (see C.3 of the IA Procedure Manual), it is now a requirement for auditors to have the Project Time Budget approved by the Manager Internal Audit. The procedure states: "Although budget controls are necessary for effective time management, the controls should not be so rigid as to stifle audit creativity. Budget controls should be sufficiently flexible to permit the adoption of new audit procedures, or changes in the scope of the existing audit project. To ensure that



adequate time is available to achieve the audit scope and objectives as further defined by the preliminary survey, the originally planned project time budget should be confirmed or otherwise adjusted. It is this metric that the auditor's performance will be measured on."

4. Work Program Approval - It is already a requirement per procedure that the Manager Internal Audit sign off on audit programs before work proceeds. Recent file reviews have determined that this procedure has not been consistently followed. The recent vacancy in IA Leadership may have exacerbated this problem. All audit team members have been reminded of the importance of compliance with this existing procedure.

5. Supervisory Approvals - This was previously identified as an issue in that files were being marked complete in the audit database by the auditor in charge prior to final review by the Manager Internal Audit. All team members have been advised that only the Manager Internal Audit can place an audit into complete status within the system. In addition, steps have been taken to ensure that system security is changed to reflect this requirement

8. Refine the Annual Audit Planning Process

Although the annual audit planning process as documented in the audit manual appears to be adequate, it has not been fully implemented. The approach for the 2014 plan is to conduct reviews with senior management to augment the data provided in the business unit risk registers. Future plans also include more integration with the Chief Risk Officer of the company and certain external parties such as the company's insurers and external auditors. Additionally, a defined method of determining the cutoff for projects to be included in the five year plan will be implemented.

Recommendation

Continue to refine the planning and risk assessment process to focus the department's auditing activities on the highest risk areas for adding value to the company.

Internal Audit Response

These refinements will continue. A sound methodology for construction of the five Year Audit Plan is seen as a critical success factor in supporting related resourcing recommendations.

9. Consider Removing Low-Risk Items from Dashboard Reporting

Several of the projects on the audit dashboard sent to the Audit Committees and Leadership Team were marked as 95% complete due to low-risk findings that had not been marked complete. One of the projects was dated 2008. Also, interview comments indicated that the data base containing the audit issues is outdated and not easy to use. As a result, updating the status of items can become frustrating and time-consuming.



Recommendation

Consider removing low-risk items from reporting to senior management and the Audit Committee after establishing a method for consistently rating findings. Explore methodologies to make the audit data base more user-friendly for management.

Internal Audit Response

We agree that this approach has merit, but only in the context of well defined parameters as they pertain to the assignment of risk ratings to audits and related issues. As noted in our response to Item#7 above, we have already taken steps to ensure that members of the audit team utilize the Corporate Enterprise Risk Management Toolset when assessing not only the risk of the audit itself, but also that of individual issues arising therefrom. We feel that this change in procedure will lead to a more robust consideration of audit risks and thereby permit reliance on such risk assessments when determining whether items designated as low risk can be ignored for reporting purposes. An informal discussion with the Chair of the Audit Committee suggests that there is consensus on this point.

10. Revise the Audit Manual

The Audit Manual is a comprehensive, 218-page document that is not indexed. The Manual does not consistently address documentation requirements for the engagement planning process, and it could more specifically address documentation requirements through use of templates for interviews and management concerns. Standardized documentation requirements can help ensure audit file consistency and achievement of engagement objectives.

Recommendation

Consider revising the Audit Manual to include more specific documentation requirements for the engagement planning process; links from engagement planning to the audit work program; and templates for interviews, planning memos, and engagement objectives and scope. Also, consider indexing the manual.

Internal Audit Response

We will give consideration to implementing the changes you suggest. Given our current resourcing challenges, we will place immediate focus on considering what additional templates might be employed as part of each audit file that might address the specific issues you raise in this matter as well as with respect to your Item # 7 above.

NALCOR ENERGY

		GC	PC	DNC
OVERALL EVALUATION		x		
ATTRIBUTE STANDARDS		x		
1000	Purpose, Authority, and Responsibility		x	
1010	Recognition of the Definition of Internal Auditing		x	
1100	Independence and Objectivity	x		
1110	Organizational Independence	x		
1111	Direct Interaction with the Board	x		
1120	Individual Objectivity	x		
1130	Impairments to Independence or Objectivity	x		
1200	Proficiency and Due Professional Care	x		
1210	Proficiency	x		
1220	Due Professional care	x		
1230	Continuing Professional Development		x	
1300	Quality Assurance and Improvement Program	x		
1310	Requirements of the Quality Assurance and Improvement Program	x		
1311	Internal Assessments		x	
1312	External Assessments	x		
1320	Reporting on the Quality Assurance and Improvement Program	x		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
1322	Disclosure of Nonconformance	x		
PERFORMANCE STANDARDS		x		
2000	Managing the Internal Audit Activity	x		
2010	Planning	x		
2020	Communication and Approval	x		
2030	Resource Management		x	
2040	Policies and Procedures	x		



2050	Coordination	x		
2060	Reporting to Senior Management and the Board	x		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	x		
2100	Nature of Work	x		
2110	Governance		x	
2120	Risk Management	x		
2130	Control	x		
2200	Engagement Planning		x	
2201	Planning Considerations		x	
2210	Engagement Objectives		x	
2220	Engagement Scope	x		
2230	Engagement Resource Allocation		x	
2240	Engagement Work Program		x	
2300	Performing the Engagement	x		
2310	Identifying Information	x		
2320	Analysis and Evaluation	x		
2330	Documenting Information	x		
2340	Engagement Supervision		x	
2400	Communicating Results	x		
2410	Criteria for Communicating	x		
2420	Quality of Communications	x		
2421	Errors and Omissions	x		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
2431	Engagement Disclosure of Nonconformance	x		
2440	Disseminating Results	x		
2450	Overall Opinions	x		
2500	Monitoring Progress	x		
2600	Management's Acceptance of Risks	x		
IIA Code of Ethics		x		



QUALITY
Ensuring Excellence

ATTACHMENT B

Model Internal Audit Charter

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the <organization>. It assists <organization> in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control.

ROLE:

The internal audit activity is established by the Board of Directors, Audit Committee, or highest level of governing body (hereafter referred to as the Board). The internal audit activity's responsibilities are defined by the Board as part of their oversight role.

PROFESSIONALISM:

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance 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 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 operations. In addition, the internal audit activity will adhere to <organization> relevant policies and procedures and the internal audit activity's standard operating procedures manual.

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of <organization> 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.

ORGANIZATION:

The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Chief Executive Officer.

The Board will

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Chief Audit Executive on the internal audit activity's performance relative to its plan and other matters.



- Approve decisions regarding the appointment and removal of the Chief Audit Executive.
- Approve the remuneration of the Chief Audit Executive.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.

The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

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.

The Chief Audit Executive will confirm to the board, at least annually, the organizational independence of the internal audit activity.

RESPONSIBILITY:

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 relating to achievement of 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 established to ensure compliance with those 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.
- 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.

INTERNAL AUDIT PLAN:

At least annually, the Chief Audit Executive will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board. The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Board through periodic activity reports.

REPORTING AND MONITORING:

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

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.

The Chief Audit Executive will periodically report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

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 Definition of Internal Auditing and the *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Internal Audit Activity charter

Approved this _____ day of _____, _____.

Chief Audit Executive

Chairman of the Board / Audit Committee

Chief Executive Officer