



# **Model Internal Audit Department Charter**

Revised February 2013

Endorsed by:  
Association of Public Pension Fund Auditors, Inc.  
A Project of the Best Practices Committee

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## FOREWORD

The following Model Internal Audit Department Charter (IAD Charter) captures many of the best practices used at the present time, February 2013. This IAD Charter may not encompass all activities that might be appropriate to a particular internal audit department, nor are all activities identified in this IAD Charter relevant to every internal audit department. Accordingly, this IAD Charter should be tailored to each internal audit department's needs and governing rules. Moreover, as applicable laws, rules, and customs change, this IAD Charter should be updated.

Endorsement by the Association of Public Pension Fund Auditors, Inc. (APPFA) means that the document is intended as a starting point of reference and as a guide to public pension funds in developing and/or revising their internal audit department charters. To the extent that a public pension fund has unique circumstances, different applications and modifications of the example passages may be desirable.

The first version of this publication was completed in August 2004 and was updated in February 2013. The update was completed by the following members of the APPFA Best Practices Committee:

Florida Rivera-Alsing, Chair	State Board of Administration of Florida
Ryan Babin	Louisiana State Employees Retirement System
Jenine Gregory	Ontario Municipal Employees Retirement System
Janet Harris	Public School Retirement System of Missouri
Amen Tam	Ontario Municipal Employees Retirement System
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## I. MISSION

The mission of the Internal Audit Department (IAD) is to provide independent, objective assurance, and consulting services designed to add value and improve the organization's operations. The IAD helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.<sup>1</sup> The IAD:

- Provides a wide range of quality independent internal auditing services for the Audit Committee and executive management and consulting services for management.
- Performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches.
- Supports the organization's efforts to achieve its objectives through independent assurance and consulting services.
- Maintains a dynamic, team-oriented environment that encourages personal and professional growth, and challenges and rewards internal audit staff for excellence and reaching their full potential.

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<sup>1</sup> Source: International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors, Inc.,

## II. OBJECTIVES AND SCOPE

### A. Assurance Objectives

The objectives of the IAD’s assurance services are to provide independent assurance to the Board of Trustees (Board), Audit Committee, and management that the organization’s assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and the organization’s policies. Assurance objectives include independent assessment of the organization’s governance, risk management, and control processes.

### B. Consulting Objectives

The objectives of the IAD’s consulting services, the nature and scope are agreed with management, are to provide assessments and advice for improving the organization’s governance, risk management, and control without the IAD assuming management responsibility. In particular, the consulting objectives are to provide assessments and advice at the beginning of a project so that risks may be identified, managed, and internal controls may be designed adequately.

### C. Scope

The scope of work of the IAD is to determine whether the organization’s network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning to ensure:

- Programs are operating within fiduciary standards and are in compliance with laws, regulations, ordinances, policies, and procedures.
- Risks are appropriately identified and managed.
- Programs and processes are consistent with industry best practices, using the best public and private examples as benchmarks.
- Operations, processes, and programs are consistent with established missions, objectives and goals and whether they are being carried out as planned.
- Existing policies and procedures are appropriate and updated.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Resources are acquired economically, used efficiently, and adequately protected.

- Quality and continuous improvement are fostered in the organization’s control process.
- Employers appropriately enroll employees, accurately report employee earnings, and appropriately report other employee data.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving member service, management of risks, internal control, governance, and the organization’s effectiveness and image may be identified during audits. This information will be communicated to the Audit Committee and to appropriate levels of management.

### III. AUTHORITY

The internal audit function of this organization is established by state statutes XXXX, and enabled by regulations YYYY. The IAD is established by this organization pursuant to these applicable laws and regulations, customs of corporate governance, and best practices. This IAD Charter and all future amendments are to be approved by the Audit Committee through a majority vote. This IAD Charter shall be reviewed at least annually and updated as necessary.

The Chief Audit Executive (CAE) reports functionally to the Audit Committee and reports administratively to the Chief Executive Officer (CEO). The CAE is hired, evaluated, retained, and terminated by the Audit Committee. The Audit Committee will seek input from the CEO in making its selection.

The CAE is delegated the authority to manage the IAD. The CAE is authorized to allocate resources, set project frequencies, select audit subjects, determine scope of work, and apply the techniques necessary to accomplish the audit objectives. The CAE is authorized to hire, retain, train, and terminate internal audit staff, when necessary, to achieve the objectives of the IAD.

The CAE and internal audit staff are not authorized to perform operational duties for the organization and/or its affiliates and contractors. IAD staff is not authorized to:

- Initiate or approve accounting transactions external to the IAD.
- Direct the activities of any organization employee not employed by the IAD, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## IV. ACCESS

The CAE and designated audit staff, as appropriate, shall have full, free, and unrestricted access to all of the organizations' functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process, or department under review. All contracts with vendors shall contain the organization's standard audit language enabling the organization's internal auditors, other auditors and specialists to have access to relevant records and information. All of the employees of the organization are required to assist the staff of the IAD in fulfilling their function.

The CAE shall have free and unrestricted access to the Chair, members of the Audit Committee, and Board of Trustees. The CAE shall also have free and unrestricted access to the CEO, other executives, management, all personnel, contractors, vendors, employers, members, retirees and beneficiaries of the organization.

Documents and information given to the IAD shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The CAE shall ensure that internal audit staff is adequately coached in the handling and safeguarding of confidential information.

## V. INDEPENDENCE

### A. *Organizational Placement*

To provide for the independence of the IAD, its personnel report to the CAE, who in turn reports functionally to the Audit Committee and administratively to the CEO. The CAE shall freely discuss audit policies, audit findings and recommendations, audit follow-up, issues, and other matters as necessary.

### B. *Professional Standards of Independence*

The Audit Committee recognizes that professional independence requires that the internal auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the CAE will report to the Audit Committee the qualifications, certifications, and training requirements of the internal audit staff. The CAE shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks will be those of the organizations mentioned in Section VII of this document.

### C. *Impairment of Independence*

The CAE should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Audit Committee, as necessary. If objectivity or independence is impaired in fact or appearance, the details of the impairment should be disclosed to the appropriate parties. The nature of the disclosure will depend on the impairment. The IAD should annually certify to the Audit Committee they have no actual or perceived conflicts of interest that would impair their objectivity or independence.

## VI. RESPONSIBILITIES AND ACCOUNTABILITY

The CAE is responsible for the following in order to meet the mission, objectives, and scope of this Charter and the IAD.

1. Select, train, develop, and retain a competent internal audit staff who collectively has the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives and scope of this Charter. Provide opportunity and support for staff obtaining professional training, examinations, and certifications.
2. Establish policies for conducting IAD activities according to the organization's policies, direction provided by the Audit Committee, and professional standards described in Section VII.
3. Perform an annual risk assessment. Develop and implement a flexible annual audit plan (audit plan) using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the audit plan to the Audit Committee for review and approval. The audit plan will include some unassigned hours in order to provide flexibility for changing conditions. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated, if necessary.
4. Prepare a budget that is complementary to the implementation of the audit plan.
5. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out its business objectives.
6. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
7. Issue periodic reports to the Audit Committee and management summarizing results of assurance and consulting services. Any management letters issued should also be reported to the Audit Committee.
8. Assess periodically whether the purpose, authority, and responsibility, as defined in this IAD Charter, continue to be adequate to enable the IAD to accomplish its mission, objectives, and scope. The result of this periodic assessment should be communicated to the Audit Committee and the CEO.
9. Implement a quality assurance and improvement program. Obtain an external assessment no less frequently than every five years [*International Standards for the*

*Professional Practice of Internal Auditing*] or every three years [*Generally Accepted Government Auditing Standards*], as appropriate. Conduct periodic internal quality assurance and ongoing quality procedures. Results of the quality assurance and improvement program should be reported to the Audit Committee.

10. Lead/participate in the selection of external audit firms. Coordinate/manage the contract(s) with any external audit firms and evaluate their performance. Report to the Audit Committee on all activities and associated cost of work performed by the external audit firms.
11. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
12. Act as the primary point of contact for handling all matters related to audits, examinations, investigations or inquiries of the state auditor or other appropriate state or federal auditors.
13. As appropriate, provide consulting services to management that add value and improve the organization's governance, risk management, and control processes without assuming management responsibility.
14. Assist in the investigation of suspected fraudulent activities within the organization and notify the Audit Committee, the CEO and other Executives, as appropriate, of the results.
15. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues and other significant matters.
16. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
17. Attend all Audit Committee meetings, and ensure attendance of additional audit staff and auditees, as appropriate.

## VII. PROFESSIONAL STANDARDS & GUIDANCE

The IAD shall follow the professional standards of relevant professional organizations. The IAD should consider professional guidance published by these organizations. These professional standards and guidance include, but are not limited to, the following:

- The Institute of Internal Auditors mandatory guidance which includes the International Standards for the Professional Practice of Internal Auditing, Code of Ethics, and Definition of Internal Auditing. The current versions of these documents are part of this IAD Charter and are appended thereto.
- IS Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the ISACA. The Control Objectives for Information Technology will be used as a reference. The current versions of these documents are part of this Charter and are appended thereto.
- Professional Standards and Code of Ethics of the American Institute of Certified Public Accountants, as applicable.
- Generally Accepted Government Auditing Standards from the United States General Accountability Office, as applicable.
- Public Company Accounting Oversight Board (PCAOB) auditing standards, as applicable.
- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.
- Other professional guidance such as The Institute of Internal Auditors Practice Advisories, Practice Guides, and Position Papers.

## VIII. RELATIONSHIP TO RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The IAD's role is to provide an independent and objective assurance on the effectiveness of the risk management system.

Management is responsible for implementing a system of internal control. The IAD's role is to provide an independent and objective assurance that the internal control system is operating effectively.

## **IX. PROCUREMENT OF OUTSIDE EXPERTISE**

The CAE may occasionally need to obtain the expertise of persons outside of the IAD. When the CAE intends to use and rely on the work of a person outside the IAD, the CAE needs to consider the competence, independence, and objectivity of the person.

Expertise may be obtained within the organization through appropriate arrangements with management. When obtaining this expertise within the organization, care must be taken to avoid conflicts of interest that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside the organization. In such cases, the CAE needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The CAE must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed about the use of an external service provider.

## **XI. SIGNATURE PAGE**

This IAD Charter was adopted by the Audit Committee on (date), and approved by the Board. This IAD Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

_____	_____	_____	_____
Chair, Audit Committee	Date	Chair, Board of Trustees	Date
_____	_____	_____	_____
Chief Audit Executive	Date	Chief Executive Officer	Date

## REFERENCES

The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

The Institute of Internal Auditors' Model Internal Audit Activity Charter.

IIA Position Paper: The Role of Internal Auditing in Enterprise-Wide Risk Management.

Internal Audit Charter of the various public pension fund systems who are members of APPFA.



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