

Agenda Item: 7.16

Prepared by: Mark Majek, Kathy Thomas, Deborah Bell, Tamara Cowen and Jaye Stepp
Meeting Date: July 2015

Summary of Request:

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 must periodically review the internal audit charter and present it to senior management and the board for approval.

The internal audit charter is a formal document that establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to any function under review; free and unrestricted access to the Board and the Audit Committee; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Board.

Historical Perspective:

The Board last reviewed the Internal Audit Charter in October, 2014.

Pros:

The Board of Nursing will be in compliance with the Internal Auditing code of ethics and standards.

Cons:

None.

Staff Recommendation:

Board Action: Move to accept the internal audit charter as prepared by E. Jaye Stepp, CPA for fiscal year 2016.



BOARD OF NURSING

INTERNAL AUDIT CHARTER

FY 2016

Prepared by:
E. Jaye Stepp, CPA, CIA, CGAP, CRMA
Internal Auditor

INTERNAL AUDIT CHARTER

Board of Nursing

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 agency. It assists the Board of Nursing in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the agency'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 governs 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 are also adhered to as applicable to guide operations. In addition, the internal audit activity adheres to the Board of Nursing's 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 the Board of Nursing 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 Texas Board of Nursing (BON) contracts for internal audit services to meet the requirements of the Texas Internal Audit Act. The Texas Internal Audit Act §2102.006 requires that the internal auditor be either a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA). The Institute of Internal Auditor's Professional Standards recommends that the Chief Audit Executive possess one or more of the following credentials: CPA, CIA, Certified Government Audit Professional (CGAP) or Certified Information

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Systems Auditor (CISA). In keeping with these guidelines, BON's contracted internal auditor serves as the agency's Chief Audit Executive. The Chief Audit Executive will report functionally to the Board and administratively (i.e. day to day operations) to the Chief Executive Officer. The Chief Audit Executive will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

The Board will

- Approve the internal audit charter
- Approve the risk based internal audit 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.
- Make appropriate inquiries of management and the Chief Audit Executive to determine whether there is inappropriate scope or resource limitations.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct the agency personnel, and for monitoring compliance therewith.
- Review the effectiveness of the internal audit function, including conformance with The Institute of Internal Auditors' the Definition of Internal Auditing, Code of Ethics and the *International Standards for Professional Practice of Internal Auditing*.

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 interest or by others in forming judgments.

The Chief Audit Executive confirms to the board, through the annual review and presentation of this Charter to the Board annually, the organizational independence of the internal audit activity.

RESPONSIBILITY:

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The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the agency'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 agency.
- 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 agency.
- 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.
- Prepare an annual report and submit before November 1st of each year to the Governor's Office, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office, the agency's governing board, and the agency's administrator. The form and content of the report will be determined by the State Auditor.

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

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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 three years.

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STANDARDS OF AUDIT PRACTICE

The internal auditing activity shall be governed by adherence to the following standards:

- *Texas Government Code*, Chapter 2102 (Texas Internal Auditing Act)
- *International Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* of the Institute of Internal Auditors.
- *Government Auditing Standards* of the United States Government Accountability Office.

Internal Audit Activity Charter

Approved this 23rd day of JULY, 2015.

Katherine A. Thomas, MN, RN, FAAN
Executive Director

Kathy Shipp, MSN, RN, FNP
Board President

Jaye Stepp, CPA, CIA, CGAP, CRMA
Internal Auditor for TBON (Contractor)