



TO: Board Members
FROM: Nicole Campbell, Internal Audit Director
DATE: August 22, 2016
SUBJECT: Internal Audit Charter

ACTION REQUESTED

The Internal Audit Division requests approval of the Internal Audit Charter, as attached.

BACKGROUND

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an Internal Audit Charter (Charter), consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. In addition, the Director of Internal Audit must periodically review the Charter and present it to the Board and Executive Administration for approval.

SUMMARY

In addition to formatting changes, the primary revisions made to the existing Charter include the following:

- Removed definitions.
- Removed repetitive text either already addressed in other areas of the Charter, or covered by references made to auditing standards and/or the Texas Internal Audit Act.
- Removed statements not specifically required by auditing standards and/or the Texas Internal Auditing Act.
- Added recommendations included in the Division’s quality assurance report, dated May 2014.
- Added text regarding management’s responsibility to inform Internal Audit of external oversight activities.
- Added authorizing signatures and dates.

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Attachment:
1 – Internal Audit Charter

cc: Jeff Walker, Executive Administrator

Internal Audit Charter

I. Introduction

The Internal Audit Charter (Charter) defines the purpose, authority, and responsibility for the Texas Water Development Board's (TWDB) Internal Audit Division. The Charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

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

The TWDB's internal audit activity is carried out by the Internal Audit Division in compliance with Texas Government Code, Chapter 2102 (Texas Internal Auditing Act). The Act requires that the internal audit program, and all internal audit staff, comply with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics issued by the Institute of Internal Auditors, and the Government Auditing Standards as promulgated by the U.S. Government Accountability Office (GAO). Internal audit staff also adhere to the agency's policies and procedures, as well as the internal audit policy and procedures manual.

The mission of the Internal Audit Division is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight to management and the Board.

II. Purpose

The Internal Audit Division provides assurance services to the Board by conducting periodic audits of the agency's functions, operations, and information systems. Assurance services are defined as an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Assurance services may include financial audits, compliance audits, program audits, and economy and efficiency audits.

The Internal Audit Division also provides consulting services defined as advisory and related client service activities. The nature and scope of consulting services are agreed upon with the client and are intended to add value and improve the TWDB's governance, risk management, and control processes without internal audit staff assuming management responsibility.

The Internal Audit Division's scope of work 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 TWDB's stated goals and objectives. This includes evaluating the:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and Efficiency of operations and programs.
- Safeguarding of assets.
- Systems established to ensure compliance with laws, regulations, policies, procedures, and contracts.

III. Authority

The Internal Audit Division, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the TWDB's 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 and its members and any TWDB related records they possess.

The Internal Audit Director is authorized to:

- Communicate and interact directly with the Board and present any matter that may warrant immediate attention or action.
- Have direct access to the Executive Administrator and present any matter that may warrant immediate attention or action. The Board will also be notified immediately.
- Allocate resources, select subjects, determine scopes of work, and apply the techniques required to accomplish the audit objectives.
- Obtain the necessary assistance of agency personnel, as well as other specialized services from within or outside of the TWDB that the Internal Audit Director engages for the purpose of consulting with internal audit or providing assurance services.

The Internal Audit Director is not authorized to perform any operational duties for the TWDB, initiate or approve financial transactions external to the internal audit function, or direct the activities of any agency employees not employed by the internal audit activity, except to the extent such employees have been assigned to or otherwise assist the internal audit activity.

IV. Independence and Objectivity

The Internal Audit Division 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 an independent and objective state of mind.

Internal audit staff will have no direct operational responsibility or authority over the activities audited. Internal audit staff will not implement internal controls, develop procedures, install systems,

prepare records, or engage in any other activity related to non-audit functions that may impair the internal auditor's independence and judgement.

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 judgements. This will ensure internal audit staff maintain an impartial, unbiased attitude and avoid any conflict of interest.

The Internal Audit Director reports functionally to the Board and all administrative matters will be handled by the Chairman of the Board or the Chairman's Chief of Staff. The Internal Audit Director will confirm to the Board, at least annually, the organizational independence of the internal audit activity.

V. Roles and Responsibilities

The Board will:

- Ensure the independence of the internal audit activity.
- Approve the Internal Audit Charter.
- Approve the risk based internal audit plan.
- Approve the annual internal audit budget and resource plan.
- Receive communications from the Internal Audit Director on the internal audit activity's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Internal Audit Director.
- Provide an annual performance evaluation of the Internal Audit Director.
- Approve the remuneration of the Internal Audit Director.
- Periodically review the resources dedicated to the internal audit activity and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.

The Internal Audit Director will:

- Develop a risk-based annual audit plan for review and approval by the Board that identifies the engagements to be conducted during the fiscal year.
- Conduct engagements specified in the annual audit plan, including follow-up reviews of prior recommendations and document deviations from the plan.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certification to meet the requirements of this Charter and the Texas Internal Auditing Act.
- Review annually the Internal Audit Charter, and present any revisions to the Board and Executive Administration for approval.
- Prepare final reports of findings and recommendations for review by the Board and Executive Administration, with subsequent distribution to the Office of the Governor,

Legislative Budget Board, Sunset Advisory Commission, and State Auditor's Office as specified by the Texas Internal Auditing Act.

- Report semi-annually on the implementation status of recommendations from internal and external audits, reviews, assessments, and advisory services.
- Report quarterly on the performance of internal activities, the status of external oversight activities, and other significant issues.
- Prepare an annual report for review by the Board and submission pursuant to the requirements of the Act.
- Maintain a quality assurance and improvement program that consists of ongoing and periodic internal assessments, as well as an external assessment conducted every three years by an independent party.
- Act as the agency's liaison for all external auditors and monitors.
- Serve as the agency's contact for fraud, waste and abuse elimination activities, investigating any reported cases, and notifying the Board and Executive Administration of the matter, as well as the results of the review.
- Carry out advisory services as may be requested by the Board, Executive Administration, and agency management that are not prohibited by statute or professional standards and for which resources are available as determined by the Internal Audit Director.

The TWDB Management will:

- Establish and maintain effective controls to ensure that goals and objectives are met, services are provided effectively, and assets are safeguarded.
- Provide information to the Internal Audit Division, as requested.
- Maintain a process to ensure timely management responses and that appropriate action is taken on audit recommendations.
- Inform the Internal Audit Director of reviews, evaluations, assessments, audits, or inspections scheduled by local, state, or national agencies and/or external consultants or auditors evaluating programs or controls.

This Charter is approved by the Texas Water Development Board on August 25, 2016.

Bech K. Bruun, Chairman

Jeff Walker
Executive Administrator