

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, 2017.

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 2019.



BOARD OF NURSING

INTERNAL AUDIT CHARTER

FY 2019

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

INTERNAL AUDIT CHARTER

Texas Board of Nursing (BON)

Purpose and Mission

The purpose of the Board of Nursing's internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve the Board of Nursing's operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit activity helps the Board of Nursing accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Standards for the Professional Practice of Internal Auditing

The internal audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the Board regarding the internal audit activity's conformance to the Code of Ethics and the *Standards*.

Internal auditing is defined as an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of an organization.

The objectives of assurance services are to provide formal, independent assurance to management and the Executive Committee that the organization's assets are safeguarded, that operating efficiency is enhanced, and that compliance is maintained with prescribed laws, and management and Board policies. The assurance services objectives also include independent assessment of the organization's risk awareness and management, reliability and integrity of the organization's data, and achievement of the organization's goals and objectives.

The objectives of consulting services are to provide management with assessments and advice for improving processes that will advance the goals and objectives of the organization. No assurance is provided. The objectives of consulting services are to provide formal assessments and advice on projects. Typically, the objectives and the scope of the projects are agreed to by management.

The internal audit activity also adheres to the Board of Nursing's policies and procedures and the Internal Audit Procedures Manual (IAPM).

Authority

The chief audit executive will report functionally to the Board and administratively (i.e., day-to-day operations) to the chief executive officer. To establish, maintain, and

INTERNAL AUDIT CHARTER

Texas Board of Nursing (BON)

assure that the Board of Nursing's internal audit activity has sufficient authority to fulfill its duties, the Board will:

- Approve the internal audit activity's charter.
- Approve the risk-based internal audit plan.
- Approve the internal audit activity's budget and resource plan.
- Receive communication 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 have unrestricted access to, and communicate and interact directly with, the Board, including in private meetings without management present.

The Board authorizes the internal audit activity to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scope of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Board of Nursing, as well as other specialized services from within or outside the Board of Nursing, in order to complete the engagement.

Organization

The Texas Board of Nursing uses as external service provider for internal audit services to meet the requirements of the Texas Internal Auditing Act. The Texas Internal Auditing Act §2102.006 requires that the internal auditor be either a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA). The Institute of Internal Auditors' Professional Standards recommend that the chief audit executive possess one or more of the following credentials: CPA, CIA, Certified Government Audit Professional (CGAP) or Certified Information Systems Auditor (CISA). In keeping with these guidelines, BON has contracted with an internal auditor who holds the CPA, CIA, and CGAP certifications, who serves as the agency's chief audit executive. When using an external service provider to serve as the internal audit activity, it is important to understand that the BON has the responsibility for maintaining an effective internal audit activity. This can be accomplished by adherence to the periodic Quality Assurance Reviews required by *Standards* and the Act.

INTERNAL AUDIT CHARTER

Texas Board of Nursing (BON)

Independence and Objectivity

The chief audit executive will ensure that the internal audit activity remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit executive determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

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

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Board of Nursing or its affiliates.
- Initiating or approving transactions external to the internal audit activity.
- Directing the activities of any Board of Nursing employee, except to the extent that such employees have been appropriately assigned to assist internal auditors.

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all the relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The chief audit executive confirms to the Board, at least annually, the organizational independence of the contracted internal audit activity through the re-affirmation of independence by signing this document and providing it for the annual review and signatures to the Board and Executive Management.

INTERNAL AUDIT CHARTER

Texas Board of Nursing (BON)

The chief audit executive will disclose to the Board any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Board of Nursing. Internal audit assessments include evaluating whether:

- Risks relating to the achievement of the Board of Nursing's strategic objectives are appropriately identified and managed. The actions of the Board of Nursing's officers, directors, employees, and contractors are in compliance with the agency's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Board of Nursing.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The chief audit executive will report periodically to senior management and the Board regarding:

- The internal audit activity's purpose, authority, and responsibility.
- The internal audit activity's plan and performance relative to its plan.
- The internal audit activity's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Board.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Board of Nursing.

The chief audit executive also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service

INTERNAL AUDIT CHARTER

Texas Board of Nursing (BON)

providers as needed. The internal audit activity may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the internal audit activity does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The chief audit executive has the responsibility to:

- Submit, at least annually, to senior management and the Board a risk-based internal audit plan for review and approval.
- Communicate to senior management and the Board the impact of resource limitations on the internal audit plan.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Board of Nursing's business, risks, operations, programs, systems, and controls.
- Communicate to senior management and the Board any significant interim changes to the internal audit plan.
- Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the internal audit activity collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the Board of Nursing are considered and communicated to senior management and the Board as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the internal audit activity.
- Ensure adherence to the Board of Nursing's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any

INTERNAL AUDIT CHARTER

Texas Board of Nursing (BON)

such conflicts will be resolved or otherwise communicated to senior management and the Board.

- Ensure conformance of the internal audit activity with the *Standards*, with the following qualifications:
 - If the internal audit activity is prohibited by law or regulations from conformance with certain parts of the *Standards*, the chief audit executive will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by the Government Accountability Office, the chief audit executive will ensure that the internal audit activity conforms with the *Standards*, even if the internal audit activity also conforms with the more restrictive requirements of the Government Accountability Office.
- 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.

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 *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit activity and identify 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 internal assessments (both ongoing and periodic) and external assessments conducted at least once every three years by a qualified, independent assessor or assessment team from outside the Board of Nursing.

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)
- IIA Core Principles, Definition of Internal Audit, Code of Ethics, and *Standards*
- *Government Auditing Standards* of the United States Government Accountability Office.

**INTERNAL AUDIT CHARTER
Texas Board of Nursing (BON)**

Internal Audit Activity Charter

Approved this 25th day of October 2018.

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

Kathy Shipp, MSN, RN, FNP
Board President

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