

COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT
CHARTER

The Board of Supervisors of the County of Orange (County) hereby establishes a full-time, independent internal audit department under the following provisions.

Mission of the Internal Audit Function

The mission of the Internal Audit Department (IAD) is to provide highly reliable, independent, objective evaluations and business and financial consulting services to the Board of Supervisors and County management to assist them with their important business and financial decisions.

We support and assist the Board of Supervisors and County management in the realization of their business goals and objectives. Our contribution to this effort is testing and reporting on the effectiveness of their internal control systems and processes. County management relies on these systems and processes for safeguarding the County's assets and resources, reasonable and prudent financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

Definition of Internal Auditing

The County's internal audit department shall follow the standards, policies, and operational procedures established by the Institute of Internal Auditors. This authoritative body for internationally recognized internal audit standards defined Internal Auditing as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Auditor Independence

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies including the U.S. General Accounting Office (GAO), the Institute of Internal Auditors, the American Institute of CPAs, and the U.S. Securities and Exchange Commission. Auditor independence is essential to receive full value and creditable information from the internal audit function.

The Board established an internal audit department to optimize auditor independence. The Internal Audit Director and other internal audit staff shall follow recognized professional auditing standards and be free of County operational and management responsibilities that would conflict with the standards.

Organizational Reporting

The Internal Audit Director shall report directly to the Board of Supervisors and be advised by an established Audit Oversight Committee designated by the Board. The purpose and intent of this reporting relationship is to clearly establish auditor independence by reporting directly to the Board.

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Audit Oversight Committee

The Audit Oversight Committee is an advisory committee to the Board of Supervisors and provides oversight of the County's Internal Audit Department and external audit coverage. The Committee assists the Board in ensuring the independence of the internal audit function and ensuring that appropriate action is taken on audit findings. The Committee helps to promote and enhance effective internal controls for County operations, and serves as an important communication link between external auditors, internal auditors, and operating management.

Internal Auditor Hiring, Termination, and Departmental Budget and Staff Salaries

To promote the independence and to relieve the Department from inappropriate management influence or pressure and to ensure the stability and effectiveness of the Internal Auditing Department, an affirmative vote of a majority of the Board shall be required to hire or to terminate the Internal Audit Director. Furthermore, the Board of Supervisors shall be responsible for the Internal Audit Department's annual budget, staffing size, and the salaries and classifications of the staff taking into consideration the recommendations by the Audit Oversight Committee.

Objective and Scope

The objective of internal auditing is to assist the Board of Supervisors and county management in the effective discharge of their fiduciary responsibilities. To this end, internal auditing furnishes them with audits, analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective internal control at reasonable costs.

The scope of internal auditing encompasses the examination and evaluation of the adequacy of the county's system of internal control. The scope of internal auditing will include:

- Reviewing the reliability and integrity of financial and business information systems and the means used to identify, measure, classify, and report such information;
- Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operation of the County and could have a significant impact on operations and financial reports and disclosures;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;

The scope of internal auditing may include:

- Appraising the economy and efficiency with how management employs resources and reviewing operations and programs to determine whether results are consistent with established objectives and goals, and if operations or programs are being carried out as planned.

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Responsibility and Authority

Internal Audit Department functions under the policies established by the Board of Supervisors per Resolution Number 95-271. The Board of Supervisors has charged the Internal Audit Department with the responsibility for performing the audits of County Officers as required by Government Code Section 25250.

The responsibility of the Internal Audit Department is to serve the County in a manner that is consistent with the Standards for the Professional Practice of Internal Auditing and with professional standards of conduct in the Code of Ethics of the Institute of Internal Auditors, Inc., as required by Government Code Section 1236. In addition when appropriate and necessary and depending on the type of audit being conducted, the Internal Audit Department follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), by the Information Systems Audit and Control Association (ISACA), and by the Government Accounting Office (GAO). In this context, the Internal Audit Department is responsible for:

- Establishing policies for auditing and directing its technical and administrative functions;
- Developing and executing a comprehensive audit program for the evaluation of internal controls established over county financial and business activities;
- Assisting management in their stewardship of county resources and their compliance with established policies and procedures;
- Recommending improvements in the internal controls designed to safeguard county resources and to help ensure compliance with government laws and regulations;
- Reviewing procedures and accounting records for their completeness and accuracy to accomplish and report on intended objectives;
- Publishing reports on the results of audit examinations including recommendations for improvements in the internal control processes.
- Appraising the adequacy of actions taken by operating management to correct reported deficient conditions; and
- Conducting special examinations and financial analyses.

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Internal Auditor Access to Information and Personnel

Except where prohibited by law, the Director and staff of the internal audit department shall have complete and unrestricted access to all of the County's financial records, files, information systems, personnel, and properties. The Internal Audit Director shall promptly report in writing to the Chair of the Audit Oversight Committee whenever significant barriers or resistance to access to information and personnel occurs. To protect legally confidential information, no internal audit report shall directly reference or quote confidential information that is protected.

Upon initiation of an audit involving potential or suspected fraud, The Internal Audit Director shall consult with the County's Chief Counsel for legal advice and coordination of efforts.

Board Access to the Internal Auditor

The Internal Audit Department reserves resources to accommodate Board of Supervisors requests. Individual board members desiring specific audit projects shall place on the agenda their proposal for review and approval by Board majority. The Internal Audit Director reserves the right to determine how to best fit the Board directed review into the audit plan.

Annual Audit Plan

The Internal Audit Director shall be responsible for preparing an annual audit plan identifying the most productive and essential audit projects.

Audit Follow Up

In accordance with the *Standards for the Professional Practice of Internal Auditing*, the Internal Audit Director shall establish a system to follow up on reported audit findings. The system established should include updated comments and recommendations as appropriate.

Effective Date

This charter and the policies therein become effective immediately upon adoption by the Board of Supervisors of the County of Orange.

Date of Adoption: December 17, 2002; Minute Order No: S102C.