

Greater Cleveland Regional Transit Authority



# GCRTA Internal Audit Charter

Audit, Compliance, and Real Estate Committee


December 7, 2021



## Internal Audit Charter - Question A

- What is the required review and approval process for adoption of the Internal Audit (IA) annual plan (full board vs. audit committee review and approval)?

# Internal Audit Plan - Answer A



**IPPF**  
International Professional  
Practices Framework

Implementation Guide 2010 –  
Planning

**Standard 2010 – Planning**

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

**Interpretation:**

*To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.*

Revised Standards, effective 1 January 2017

# Internal Audit Plan - Answer A



## Standard 2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

Revised *Standards*, effective 1 January 2017

## Internal Audit Plan - Answer A

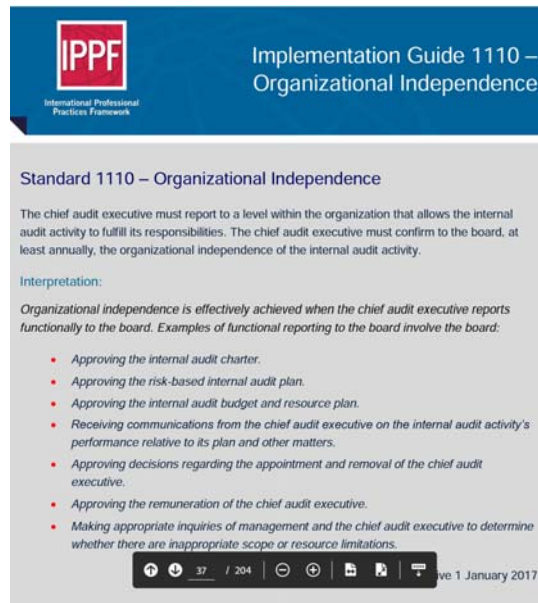
- The GM/CEO & senior management review and provide feedback.
- The Audit Committee reviews and provides feedback; refers to the plan to the full Board.
- The Board of Trustees approves the plan.

## CAE Performance Appraisal – Question B

Who administers the performance appraisal for the Executive Director of IA?

- How are annualized goals set for the Executive Director of IA, when are these approved, and by whom? If set by the Board/Audit committee, are these goals set in consultation with the General Manager (GM)?
- Is there a mid-year review process for the Executive Director of IA, and how is this formalized/documentated?
- Does the annual review process occur in concurrence with the remainder of GCRTA staff and/or GM review periods?

# CAE Performance Appraisal – Answer B



The screenshot shows a document titled "Implementation Guide 1110 – Organizational Independence" from the International Professional Practices Framework (IPPF). The document discusses Standard 1110 – Organizational Independence, which requires the chief audit executive to report to a level within the organization that allows internal audit activity to fulfill its responsibilities. It also includes an interpretation and a list of examples of functional reporting to the board.

**IPPF**  
International Professional  
Practices Framework

## Implementation Guide 1110 – Organizational Independence

### Standard 1110 – Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

*Interpretation:*

*Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:*

- Approving the internal audit charter.
- Approving the risk-based internal audit plan.
- Approving the internal audit budget and resource plan.
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.
- Approving decisions regarding the appointment and removal of the chief audit executive.
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- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

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## CAE Performance Appraisal – Answer B

Functional oversight requires the board to create the right working conditions to permit the operation of an independent and effective internal audit activity. As noted, the board assumes responsibility for approving the internal audit charter, the internal audit plan, the budget and resource plan, **the evaluation and compensation of the CAE**, and the appointment and removal of the CAE.

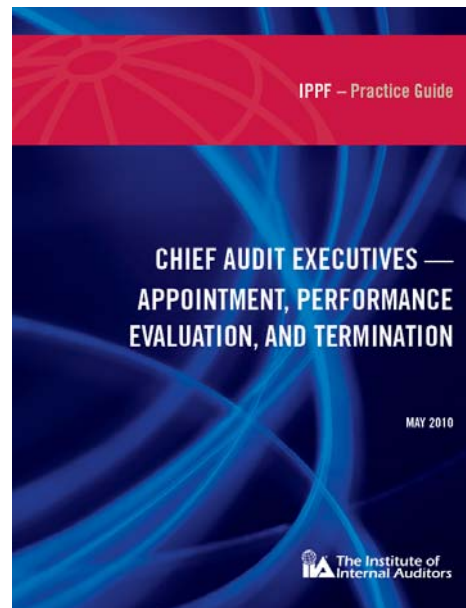


## CAE Performance Appraisal – Answer B

### Internal Audit Charter - 262.03 Authority:

“(6) Consult with the General Manager, CEO regarding the evaluation of the Executive Director of Internal Audit.”

# CAE Performance Appraisal – Question B



## CAE Performance Appraisal – Answer B

- This evaluation could include criteria pertaining to the CAE's required attributes and skills.
- The IIA provides illustrated examples; incorporated into performance plan/appraisal.

## CAE Performance Appraisal – Answer B

Example:

- Internal audit plans are developed and documented using a risk-based methodology to ensure they are focused on the right areas, performed on the right cycle, and with the right scope.

## CAE Performance Appraisal – Answer B

- Mid-Year Review - Discussion
- Annual Review – should occur within the same period as GCRTA staff and GM/CEO.
- New Audit Committee format will support a revised format and process.

## Changes to Internal Audit Plan – Question C

What is the required review and approval process for proposed changes to the IA annual plan (additions/removals or reprioritization of planned audits)?

# Changes to Internal Audit Plan – Answer C



## Standard 2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim **changes**, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

Revised *Standards*, effective 1 January 2017

## Changes to Internal Audit Plan – Answer C

The internal audit plan is developed with enough flexibility so that the CAE can adjust it as necessary in response to changes in the organization's business, risks, operations, programs, systems, and controls. However, the CAE must review significant changes to the audit plan, related rationale, and potential impact with the board and senior management to obtain their approval.



## Answer to Internal Audit Plan – Answer C

- New Audit Committee quarterly meetings will provide a format and opportunity to discuss changes to the audit plan.

## IA Annual Budget – Question D

- Who is responsible for oversight and approval of IA annual budget and expenditures?
- Is this an administrative function, and if so, is this information provided to the Audit committee separate and apart from the overall budget process?

# IA Annual Budget – Answer D



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## IA Annual Budget – Answer D

- The CAE reflects on the approved budget to consider the funds available for training, technology, or additional staffing in order to achieve the plan.
- New Audit Committee format will support a revised format and process.

## Unrestricted Access – Question E


- What is the definition of “full, free and unrestricted access” (i.e.: IT protocol, HR processes regarding confidential info, etc.), as outlined in the Charter?

## Unrestricted Access – Answer E

Internal Audit Charter - 262.04: The Board of Trustees authorizes the Internal Audit Department to:

(a) Have full, free, and unrestricted to all functions, records, property, and personnel....

# Unrestricted Access – Answer E



International Professional  
Practices Framework

## Implementation Guide 1100 – Independence and Objectivity

### Standard 1100 – Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.


**Interpretation:**

*Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

Revised Standards, effective 1 January 2017

# Unrestricted Access – Answer E



Implementation Guide 1130 –  
Impairment to Independence  
or Objectivity

**Standard 1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

**Interpretation:**

*Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest; scope limitations; restrictions on access to records, personnel, and properties; and resource limitations, such as funding.*

*The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.*

Revised Standards, effective 1 January 2017



# Unrestricted Access – Answer E



## IIA Code of Ethics Principle 3: Confidentiality

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### Rules of Conduct

Internal auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

## Unrestricted Access – Answer E

- Collect only the data required to perform the assigned engagement and use this information only for the engagement's intended purposes.

## Unrestricted Access – Answer E

- Protect information from intentional or unintentional disclosure through the use of controls such as data encryption, email distribution restrictions, and restriction of physical access to the information.

## Unrestricted Access – Answer E

- Eliminate copies of or access to such data when it is no longer needed
- Discuss with counsel, before the release of sensitive information, if applicable

## Role of Inspector General – Question F

Define the role of the Inspector General as it relates to the Director of IA.

## Role of Inspector General – Answer F

Internal Audit Charter 262.01 Purpose and Mission:

(b) The Internal Audit Department functions as the inspector general for the GCRTA....

## Role of Inspector General – Answer F

- Conduct independent and objective audits and investigations relating to GCRTA programs and operations.
- Promote economy, efficiency, and effectiveness in GCRTA programs and operations.
- Prevent and detect waste, fraud and abuse.

## Scope & Range of Responsibilities – Question G

Discuss scope and range of substantive areas covered by IA.



## Scope & Range of Responsibilities – Answer G

Internal Audit Charter 262.06 Scope of Internal Audit Activities:

(a) The scope of internal audit activities encompasses...

(a) through (d)...


## Scope & Range of Responsibilities – Answer G

- IA conducts an enterprise-wide risk assessment to identify auditable entities in every division and department.

## Changes to Internal Audit Plan – Question H

Discuss who (presumably at least 2 persons) has authority to initiate, delay or terminate investigations.

# Changes to Internal Audit Plan – Answer H



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Planning

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Revised Standards, effective 1 January 2017

# Changes to Internal Audit Plan – Answer H



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Revised *Standards*, effective 1 January 2017

## Changes to Internal Audit Plan – Answer H

Internal Audit Charter 262.07 Responsibility:

The Executive Director of IA has the responsibility to :

(3) Review and adjust the internal audit plan, as necessary, in response to the GCRTA business...

## Changes to Internal Audit Plan – Answer H

The internal audit plan is developed with enough flexibility so that the CAE can adjust it as necessary in response to changes in the organization's business, risks, operations, programs, systems, and controls. However, the CAE must review significant changes to the audit plan, related rationale, and potential impact with the board and senior management to obtain their approval.

## Answer to Internal Audit Plan – Answer H


- New Audit Committee quarterly meetings will provide a format and opportunity to discuss changes to the audit plan.



## Reporting Responsibility – Question I

Discuss reporting responsibility - CEO vs Board (e.g. direct, dotted line, joint?).

# Reporting Responsibility – Answer I



Implementation Guide 1110 –  
Organizational Independence

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## Reporting Responsibility – Answer I

The reporting line to the board provides the CAE with direct board access for sensitive matters and enables sufficient organizational status.


## Reporting Responsibility – Answer I

Administrative reporting to a the GM/CEO also provides the CAE with sufficient organizational status, as well as authority to perform duties without impediment and to address difficult issues with other senior leaders.

## Access to Legal Privileged Info – Question J

Discuss interplay of availability and access by IA vs. the need to maintain legal privilege/confidentiality.

# Access to Legal Privileged Info – Answer J



Implementation Guide  
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## Access to Legal Privileged Info – Answer J

The chief audit executive (CAE) should consult with legal counsel. The organization's policies and procedures may require that specific authorities review and approve business information before external release.

## Access to Legal Privileged Info – Answer J

Internal Audit Charter 262.07 Responsibility:

(9) Ensure the Internal Audit Department collectively possesses or obtains the knowledge... This includes seeking legal advice and counsel from the GCRTA General Counsel.



## Internal Audit Charter Suggestion

Internal Audit Charter 262.03 Authority:

Define levels of reporting for investigations of executive management, legal department, and Board Members.