



OFFICE OF THE CITY CONTROLLER AUDIT DIVISION CHARTER

JANUARY 2019
(REVISION 3)

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor

INTRODUCTION AND PURPOSE

Attribute Standard 1000 of the International Standards for the Professional Practice of Internal Auditing (*The Standards*) as issued by the *Institute of Internal Auditors (IIA)* requires the Audit Organization to: define the mission, scope, authority, responsibility, and accountability of the Internal Audit (*IA*) function using a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes, and incorporating a Code of Ethics of the *IIA* by adopting an Internal Audit Charter. The Audit Division (*AD*) Charter is the commitment by all relevant parties to support and execute these activities correlated to items specified within this document and as expressed in the City of Houston's (*City*) Charter, Article VIII, Section 7. This qualification pertains to limiting scope of operational control over Departments outside of the City Controller.

MISSION STATEMENT AND SCOPE OF WORK

The *Mission Statement* of the *AD* is to perform the Audit function for the Office of the City Controller (*CC*). This includes provision of independent, objective assurance and consulting services designed to add value and improve the *City's* operations. In doing so, we use Generally Accepted Governmental Auditing Standards (*GAGAS*) and *The Standards*. The *AD* helps Departmental Management of the *City* accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of various processes (*i.e. risk management, control, and governance*).

The *Scope of Work* of the *IA* function is intended to determine whether the organization's strategic design, implementation, documentation, and reporting of processes listed above are adequate and operating in a manner as represented by management. This should ensure that:

- Risks are identified, communicated, documented, and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operational information is accurate, relevant, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately safeguarded/maintained;
- Programs, plans, and objectives are achieved as committed and/or budgeted;
- Quality and continuous improvements are fostered within the *City's* control processes;
- Significant legislative and regulatory issues impacting the *City* are identified, recognized, and addressed appropriately; and
- Opportunities for improving management control, accountability, and the *City's* image that are identified will be communicated to the proper level of management.

RESPONSIBILITY

The *AD*, which includes the City Auditor (*CA*) and staff, has responsibility to:

- Develop a flexible Annual Audit Plan using appropriate risk-based methodology, including any risk or control concerns expressed by Departmental Management, City Council and/or citizens and submit that plan to the *CC* for review, approval, and issuance. The flexible Annual Audit Plan includes the latitude for adequate follow-up on any issues identified during the engagement process and includes relevant resource limitations and their impact on *Scope of Work*;
- Implement the Annual Audit Plan as approved by the *CC*, including any special tasks or projects requested by Departmental Management, City Council and/or citizens;
- Provide periodic reports to the *CC* summarizing the results of each engagement that identify audit findings, commendations, best practices, recommendations, conclusions, and Departmental Management responses. These reports are issued by the *CC* and distributed to the Mayor, City Council, and Department Management. Final Reports are also made available to the external auditor to enhance reliability, facilitate communication, and reduce costs of the overall audit process;
- Maintain a staff with sufficient knowledge, skills, experience, and professional certifications to meet requirements of *The Standards*. This includes adequate continuing professional education (*CPE*) to maintain licensure and/or certifications and apply relevant *GAGAS*;
- Establish and maintain an *AD* Policies and Procedures Manual that contains specific guidelines of operations of the Audit function which serves as a reference for design, execution, and assessment of the audit activities;
- Establish and maintain a Quality Assurance Program. This provides reasonable assurance regarding the operations of the *AD* in relationship to its compliance with professional standards, this Charter, and the *AD* Policies and Procedures Manual. This will include internal and external review and reporting of periodic results in performance, along with a feedback mechanism of measureable value for assessment that will be provided to the *CC*;
- Upon request, perform consulting services beyond assurance to assist Departmental Management in meeting its objectives and foster synergies within the organization while leveraging resource utilization that promotes development of professional staff with skill sets valuable to operational effectiveness and efficiencies;
- Establish and maintain sufficient and adequate levels of relevant and dynamic knowledgebase by evaluating and monitoring significant merging/consolidating functions, new or emerging services, computer hardware and software systems, processes, functions, operations, and controls coincident with the development, implementation and/or expansion of the *City's* operations;
- Assist in the investigation of alleged fraudulent activities within the *City* as requested by the *City's* Office of Inspector General (*OIG*), any law enforcement agency or judiciary, and notify the *CC* of the results; and
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal coverage, avoiding duplication of effort, building professional rapport, and further developing reliance on credibility and validity of the internal audit function.

ACCOUNTABILITY

The CA, in performing the Audit function, shall be accountable to the CC. This will be tangible and measureable by:

- Providing a periodic assessment on the adequacy, effectiveness, status of *the City's*, Departments, and/or component processes for controlling their activities and managing their risks as set out in the *Mission Statement and Scope of Work* and supported by projects that the AD has performed;
- Reporting significant issues (including unmitigated risks and control deficiencies as expressed in engagement-level assessments), potential improvements (recommendations), scope of work, results, conclusions, and status of follow-up procedures performed;
- Maintaining adequate documentation to support conclusions in the form of workpaper files that can also be reviewed for efficiency, relevance to audit plan and program, future audit work, and quality assessment purposes;
- Preparing a Risk-based Annual Audit Plan and providing periodic updates to its status and related resources; and
- Coordinating with and providing assessments of the other control and monitoring functions (*i.e. risk management, compliance, security, ethics, environmental, etc.*).

INDEPENDENCE

Because of the unique nature of the Audit function and the potential for ambiguity and conflicting interests, independence is critical to its success. This component of relationship dynamic is vital in appearance and application to create a foundation of integrity by which the cornerstone of reliability can be established and sustained. To provide for the independence of the Audit function, AD personnel report to the CA who reports functionally and administratively to the CC. In the event of concerns (e.g. external impairments, fraud, etc.), additional opportunity exists to express them and provide information to the City Council's Budget and Fiscal Affairs Committee, the City's Office of Inspector General (OIG), District Attorney's Office, and the Federal Bureau of Investigation (FBI).

AUTHORITY

In order for the AD to fulfill its responsibilities, provide adequate accountability, and maintain independence, it requires¹:

- Continual unrestricted access to all functions, records, property, and personnel of the *City* in meeting its' specific audit objectives. This includes full access to all systems that input, process, store, and report any and all information of the operations of the *City* which are not limited or otherwise restricted;
- Full and unrestricted access to the City Council's Fiscal and Budget Affairs Committee and the *City's* OIG, the District Attorney's Office, and the FBI;
- The ability to allocate audit resources, set audit frequencies, select subjects, determine scope of work, and apply audit techniques required to accomplish audit objectives, without external impairments;
- The necessary assistance and/or cooperation of personnel in relation to performance of engagement activity. This includes all the *City's* Departments where cost efficient and where outsourced functions are procured for the *City's* business.

¹ NOTE: As stated in the *City's* Charter, Article VIII, Section 7 "Nothing in this section shall extend the authority of the City Controller to initiate or implement policy beyond the financial oversight already granted by the Charter."

Office of the City Controller
Audit Division Charter

To further maintain independence, reliability, and integrity, the Audit function, as performed by the AD, will expressly **exclude** the authority to:

- Be responsible for any operational duties of the *City* where an attestation will be made by the CA on its effectiveness and conformity to organizational policies, procedures, and applicable laws and regulations;
- Initiate or approve accounting transactions that are outside of the direct operations of the Audit function and its activities; and
- Direct the activities of the *City's* employees outside the Audit function.

PROFESSIONAL STANDARDS

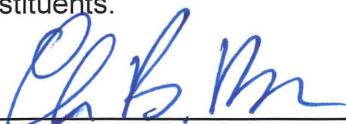
As indicated in the *Introduction* and *Mission Statement and Scope of Work* sections, the Audit function within the AD will conform and adhere to GAGAS and *The Standards* or provide appropriate disclosure when exception or limitation exists or occurs. As part of providing assurance to continued adherence, the AD will undergo a Peer Review engagement every three years, which will render an independent opinion on conformance to the professional standards and requirements reference above. All audits/engagements where GAGAS and The Standards are applied, the report/deliverable will provide a positive assurance to their adherence and application.

AMENDMENT OF THE AUDIT DIVISION CHARTER

The CA is responsible for maintaining the Charter of the AD to ensure that it is reviewed, updated, or revised as necessary. Any amendment and/or revision is to be signed and approved by the CA and the CC.

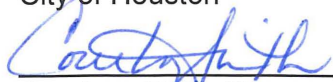
EXECUTIVE ENDORSEMENT

The AD Charter is the formal document that specifies the *Mission Statement, Scope of Work, Responsibility, Accountability, Authority, and Independence* of the Audit function. This Charter is a binding commitment and is vital to all stakeholders of the *City*. The endorsement of the AD Charter underscores the importance of the Audit function in relationship to *the City's* operations and seals the request for continued cooperation in the fulfillment of this fiduciary duty to its constituents.



Chris B. Brown
City Controller
City of Houston

Approval Date 1/4/19



Courtney E. Smith
City Auditor
City of Houston

Approval Date 1/4/2019

RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE –

GAGAS Chapters 1-3; IIA *Standards* (all, but emphasis on): 1000; 1000.A1; 1000.C1; 1010; 1110; 1110.A1; 1320; 2000; 2100; and 2600