

Diocese of Metuchen Internal Audit Charter

MISSION AND SCOPE OF WORK

The mission of the internal auditing department is to provide independent, objective assurance and consulting services designed to add value and improve the Diocese's operations and governance. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the internal auditing department is to determine whether the Diocese's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable civil and canon laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization's control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly.

Opportunities for improving management control, profitability, and the organization's image may be identified during audits. They will be communicated to the appropriate level of management.

ACCOUNTABILITY

The chief audit executive (CAE), in the discharge of his/her duties, shall be accountable to the Council for Financial Affairs Audit Committee and management to:

- Provide annually an assessment on the adequacy and effectiveness of the organization's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work. An update of the three year audit plan will be included with this assessment.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information quarterly on the status of the annual audit plan, results of completed audits, and the sufficiency of department resources.
- Coordinate with and/or provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

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INDEPENDENCE

To provide for the independence of the internal auditing department, its personnel report to the CAE, who reports administratively to the Vicar General and functionally to the Council for Financial Affairs through its audit committee in a manner outlined in the above section on Accountability.

RESPONSIBILITY

The CAE and staff of the internal auditing department have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the audit committee for review and approval.
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the audit committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Establish a quality assurance program by which the CAE assures the operation of internal auditing activities.
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue and present periodic reports to the audit committee and management summarizing results of audit activities.
- Follow up on findings to ensure that they are adequately remediated, as agreed upon by management.
- Periodically meet with the audit committee in executive session.
- Keep the audit committee and management informed of emerging trends and successful practices.
- Provide a list of significant measurement goals and results to the audit committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the audit committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.
- Coordinate reporting of Internal Audit activities performed by entities related to the Diocese. Broadly, the intent is for managers of the related entities to present findings and recommendations of reviews within their areas to the Audit Committee. It is not intended

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that the CAE present findings on behalf of the related entities. However, the CAE will set the agenda for presenting internal audit findings, organize and distribute materials, etc.

AUTHORITY

The CAE and staff of the internal auditing department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the audit committee.
- Prioritize and manage the reporting of internal audit activities from related entities to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance and cooperation of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.

The CAE and staff of the internal auditing department are not authorized to:

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the internal auditing department.
- Direct the activities of any Diocese employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.