

Introduction

The Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) International Standards for the Professional Practice of Internal Auditing (2017 Standards) and Global Internal Audit Standards (2024 Standards) requires the Chief Auditor to develop and maintain an internal audit charter. The Chief Auditor must discuss the proposed charter with the Arkansas Highway Commission (Commission) and senior management of the Arkansas Department of Transportation (Department) to confirm that it accurately reflects their understanding and expectations of the IA Division. Throughout the charter the term “Standards” is used to refer to both 2017 and 2024 Standards. Internal audit functions are required to implement the 2024 Standards by January 2025; however, the IIA encourages early adoption. Since this charter will be effective in the 2024 calendar year, the IA Division continues to follow the 2017 Standards but is adopting portions of the 2024 Standards early so that full adoption of the revised Standards will be implemented by January 2025.

Purpose

The purpose of the IA Division is to provide independent, objective assurance and advisory services designed to add value and improve operations. The IA Division supports the Department in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Mission

The mission of the IA Division is to earn and preserve the trust of Arkansans by promoting accountability, integrity, and efficiency in the operation of the Department.

Objectives

The following objectives have been set forth to achieve the mission:

- Conduct work to adhere to the IPPF,
- Audit the control activities and the transactions of the Department to determine the level of compliance with established laws, standards, rules, and procedures, as well as the operational effectiveness and efficiency of the control activities,
- Investigate reported or identified occurrences of fraud, theft, waste, abuse, or mismanagement of Department resources,

- Consult with Department personnel in establishing appropriate internal controls to prevent errors or irregularities,
- Perform other functions as directed by the Commission or Director of the Department.

Commitment to Adhering to the Standards

The IA Division will adhere to the mandatory elements of the IIA IPPF. The Chief Auditor will report annually to senior management and the Commission regarding the IA Division's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Mandate

Authority

The Commission grants the IA Division the mandate to provide the Commission and senior management with objective assurance, advice, insight, and foresight.

The IA Division's authority is created by its direct reporting relationship to the Commission. Such authority allows for unrestricted access to the Commission. The Commission authorizes the IA Division to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. IA Division staff are accountable for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue communications to accomplish the IA Division's objectives.
- Obtain assistance from the necessary personnel of the Department and other specialized services from within or outside the Department to complete internal audit services.

Independence, Organizational Position, and Reporting Relationships

The Chief Auditor will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management, thereby establishing the independence of the IA Division. The Chief Auditor will report functionally to the Commission and administratively (i.e., day-to-day operations) to the Director. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the Commission, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The Chief Auditor will confirm to the Commission, at least annually, the organizational independence of the IA Division. If the governance structure does not support organizational independence, the Chief Auditor will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The Chief Auditor will disclose to the Commission any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the IA Division's effectiveness and ability to fulfill its mandate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the Chief Auditor, Commission, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include, but are not limited to:

- A significant change in the Standards.
- A significant reorganization within the organization.
- Significant changes in the Chief Auditor, Commission, and/or senior management positions.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Oversight

Commission Oversight

To establish, maintain, and ensure that the IA Division has sufficient authority to fulfill its duties, the Commission will:

- Discuss with the Chief Auditor and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the IA Division.
- Discuss with the Chief Auditor and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the Chief Auditor and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the IA Division's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Approve the risk-based internal audit plan.
- Approve the IA Division's budget and resource plan.

Chief Auditor Roles & Responsibility

- Review and provide input to senior management on the Chief Auditor's performance.
- Receive communications from the Chief Auditor on the IA Division's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Auditor.
- Make appropriate inquiries of management and the Chief Auditor to determine whether there is inappropriate scope or resource limitations.

Ethics and Professionalism

The Chief Auditor will ensure that internal auditors:

- Conform with the Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

Objectivity

The Chief Auditor will ensure that the IA Division remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Chief Auditor determines that 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, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in any other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Department or its affiliates.
- Initiating or approving transactions external to the IA Division.
- Directing the activities of any Department employee that is not employed by the IA Division, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to the Chief Auditor timely and at least annually.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the IA Division

The Chief Auditor has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Commission and senior management. Discuss the plan with the Commission Chair and senior management and submit the plan to the Commission for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the Commission and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Department's business, risks, operations, programs, systems, and controls.
- Communicate to the Commission Chair and senior management significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the Commission and senior management quarterly and for each engagement as appropriate.
- Ensure the IA Division collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Standards and fulfill the internal audit mandate.

- Identify and consider trends and emerging issues that could impact the Department and communicate to the Commission and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the IA Division.
- Ensure adherence to the Department's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter or the Standards. Any such conflicts will be resolved or documented and communicated to the Commission and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Chief Auditor cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and, if necessary, escalated to the Commission.

Communication with the Commission and Senior Management

The Chief Auditor will report annually to the Commission and senior management regarding:

- The IA Division's mandate.
- The IA Division's plan and performance relative to its plan.
- The IA Division's budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the IA Division's conformance with Standards and action plans to address the IA Division's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the Commission that could interfere with the achievement of the Department's strategic objectives.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the Chief Auditor determines may be unacceptable or acceptance of a risk that is unacceptable to the Department.

Internal Audit Activities

Quality Assurance and Improvement Program

The Chief Auditor will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the IA Division. The program will include external and internal assessments of the IA Division's conformance with the Standards, as well as performance measurements to assess the IA Division's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the IA Division's deficiencies and opportunities for improvement.

Annually, the Chief Auditor will communicate to the Commission Chair and senior management about the IA Division's quality assurance and improvement program, including results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the Department; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

Scope and Types of Internal Audit Activities

The scope of internal audit services covers the entire breadth of the organization, including the Department's activities, assets, and personnel. The scope of the internal audit activities also encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to the Commission and management on the adequacy and effectiveness of governance, risk management, and control processes for the Department.

The nature and scope of advisory services may be agreed upon with the party requesting the service, provided the IA Division does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements include evaluating whether:

- Risks relating to the achievement of the Department's objectives are appropriately identified and managed.
- The actions of the Department's employees and contractors comply with the Department'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 Department.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

Other Activities

The Chief Auditor will ensure appropriate disclosures are made regarding conformance with the Standards when activities performed by the IA Division are prohibited from conforming to all the Standards due to the type of activity or restrictions and requirements issued by other authoritative bodies. Activities of the IA Division that may qualify for disclosure include to:

- Monitor the Department hotline for reporting fraud, waste, or abuse and perform investigations of fraud, waste, or abuse complaints.
- Conduct indirect cost rate reviews mandated by 23 CFR 172.11(c).
- Perform audits mandated by the International Fuel Tax Agreement.

Approval & Signatures

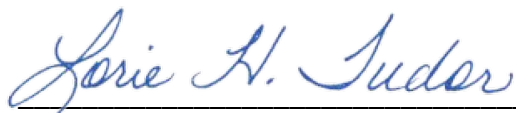
Approved by the Commission at its meeting on 8/7/2024.



 Chief Auditor

8/8/2024

 Date



 Director

8/7/2024

 Date



 Commission Chair

8/7/2024

 Date