

Audit Committee Meeting

August 18, 2022



Presented by

Ginny Veneracion-Alunan, CPA, Deputy Director, Program Integrity Division and Chief Audit Executive

Dan Washburn, CIA/CRMA, Section Chief, Office of Audit Services

AGENDA

Presentation	Presentation Slides
Internal Audit Charter for the Office of Audit Services a. Action: Vote on Audit Charter Approval <i>Attachment – Internal Audit Charter (full text of prior and current charters)</i>	3-10
Fiscal Year 2022-23 Risk-Based Audit Plan a. Action: Vote on Annual Audit Plan Approval <i>Attachment – Fiscal Year 2022-23 Risk-Based Audit Plan (additional details)</i>	11-30
Wrap-Up and Next Steps a. Proposed Quarterly Meeting Dates	31-32

INTERNAL AUDIT CHARTER

August 2022 Version

Ginny Veneracion-Alunan, CPA, Deputy Director, Program Integrity Division and Chief Audit Executive
Dan Washburn, CIA/CRMA, Section Chief, Office of Audit Services

AUDIT COMMITTEE BACKGROUND AND HISTORY

2015

Audit & Finance Committee Created

Purpose: Advisory Committee to assist the Board in fulfilling its oversight over audit and financial responsibilities.

APRIL 2022

Board Approval to Establish an Independent Audit Committee

In creating an independent Audit Committee (April 2022 Board Meeting), the Board can focus on audit issues and fully discuss audit matters separate from financial affairs.

Purpose: To provide a structured, systematic oversight of the organization's governance, risk management, and internal control practices. The committee assists the Covered California Board (Board) and management by providing advice and guidance on the adequacy of the organization's system of internal controls, the internal audit process (executed by the Office of Audit Services [OAS]), and Covered California's process for monitoring compliance with laws and regulations.

The Audit Committee Charter: Outlines its purpose, composition and meetings, and responsibility and authority. It was approved at the April 2022 Board Meeting.

August 18, 2022: First Audit Committee Meeting

AUDIT COMMITTEE OVERVIEW

Composition

- The Audit Committee consists of two Board members, Dr. Sandra Hernandez and Jarrett Tomás Barrios.
- The appointed committee members shall serve on the committee until replacement, with or without cause, by the Board.

Meetings

In accordance with the *International Standards for the Professional Practice of Internal Auditing*, the Committee shall meet quarterly or more frequently as the Committee deems necessary.

Select Responsibilities and Roles (see Appendix A for full list)

- Review and approve the Internal Audit Charter and risk-based Audit Plan annually.
- Consider the effectiveness of Covered California’s governance, risk management, and internal control systems.
- Review the results of internal audit reports, including management’s corrective action plans.
- Regularly report to the Board about committee activities and provide an open avenue of communication between OAS and the Board members.

Authority

- Professional Audit Standards section 1111 states that “the chief audit executive must communicate and interact directly with the Board.”
- Government Code section 13886(a) states “any governing body that oversees a state agency that performs or reviews internal audits shall establish an audit committee....”

COVERED CALIFORNIA INTERNAL AUDIT CHARTER

A charter provides the organization a blueprint for how internal audit will operate and helps the governing body to clearly signal the value it places on internal audit's independence.

The internal audit charter is a formal document that defines internal audit's purpose, authority, responsibility, and position within the organization. The charter should set out the nature of services that internal audit will provide and how internal audit will help the organization to achieve its objectives.

Major Elements

- ✓ **Purpose/Mission** – provides the purpose for having an internal audit unit and the mission.
- ✓ **Core Principles for the Professional Practice of Internal Auditing** – explains the principles by which internal audits will conduct themselves.
- ✓ **Authority** – government codes and standards for establishing and maintaining an internal audit unit.
- ✓ **Standards for the Professional Practice of Internal Auditing** – establishes the standards for the Office of Audit Services as promulgated by The Institute of Internal Auditors and the United States Government Accountability Office.
- ✓ **Code of Ethics** – states the principles and expectations governing the behavior of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioral expectations rather than specific activities
- ✓ **Definition of Internal Auditing** – 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 government processes.
- ✓ **Scope of Internal Audit Activities** – delineates the primary activities undertaken by the Office of Audit Services.
- ✓ **Responsibility** – outlines the responsibilities to Covered California and the board.

The Framework Audit Standards also state that,

“The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.”

INTERNAL AUDIT CHARTER – MISSION AND SCOPE

Office of Audit Services Mission

- The mission of Office of Audit Services is:
 - To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
 - To assist Covered California's management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to assess and promote the systems of internal controls, including effective and efficient operations.
- The Office of Audit Services will accomplish this through communication, monitoring, and collaboration with management.
- This supports the accomplishment of Covered California objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and financial and operational control processes.

Scope of Internal Audit Activities

- Ensuring programs and systems are operating within the highest standards and are directed toward the requirements defined in the Federal and State laws, regulations, and Covered California policies and procedures.
- Reviewing the reliability and integrity of financial and operating controls and information and the means used to identify, measure, classify, and report such information.
- Assessing business risks and verifying appropriate mitigating control mechanisms are in place.
- Reviewing established system of internal control to ascertain whether they are functioning as designed.
- Assessing the efficiency of processes and resources deployed.
- Evaluating information technology governance and security practices and ensuring that they adequately protect information assets, support Covered California's objectives, and are in compliance with applicable policies, rules, and regulations.
- Evaluating Covered California's qualified health plans, grantees, contractors, and vendors for compliance with contractual provisions, laws, and regulations.



Questions

PUBLIC COMMENT

CALL: (877) 336-4440

PARTICIPANT CODE: 6981308

- To request to make a comment, press 10; you will hear a tone indicating you are in the queue for comment. Please wait until the operator has introduced you before you make your comments.
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EACH CALLER WILL BE LIMITED TO TWO MINUTES PER AGENDA ITEM

Note: Written comment may be submitted to AuditCommittee@covered.ca.gov

COVERED CALIFORNIA INTERNAL AUDIT CHARTER - PROPOSED

Action Item: Approval of the Proposed Internal Audit Charter

INTERNAL AUDIT CHARTER

- Defines the internal audit purpose, authority, independence, and responsibility. Outlines activities executed by the Office of Audit Services.
- Reviewed and approved annually by the governing Audit Committee.

AUDIT COMMITTEE CHARTER

- Governs the responsibilities of the Audit Committee.
- Approved by the Covered California Board at the April 2022 Board Meeting.



Covered California Internal Audit Charter

Policy

It is the policy of Covered California to establish and maintain an independent and objective internal audit function and provide the resources necessary to enable the Office of Audit Services (OAS) to achieve its mission and discharge its responsibilities.

Purpose (Definition of Internal Control)

The purpose of Covered California OAS is to provide independent, objective assurance and consulting services designed to add value and improve Covered California's operations. We help Covered California accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and organizational governance processes.

Mission

The mission of OAS is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. OAS assists Covered California's management in the discharge of their oversight, management, and operating responsibilities through independent audits and consultations designed to assess and promote the systems of internal controls, including effective and efficient operations. OAS will accomplish this through communication, monitoring, and collaboration with management. This supports the accomplishment of Covered California objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of organizational governance, risk management, and control processes.

Core Principles for the Professional Practice of Internal Auditing

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement.

ANNUAL RISK-BASED AUDIT PLAN

Ginny Veneracion-Alunan, CPA, Deputy Director, Program Integrity Division and Chief Audit Executive
Dan Washburn, CIA/CRMA, Section Chief, Office of Audit Services

ROADMAP

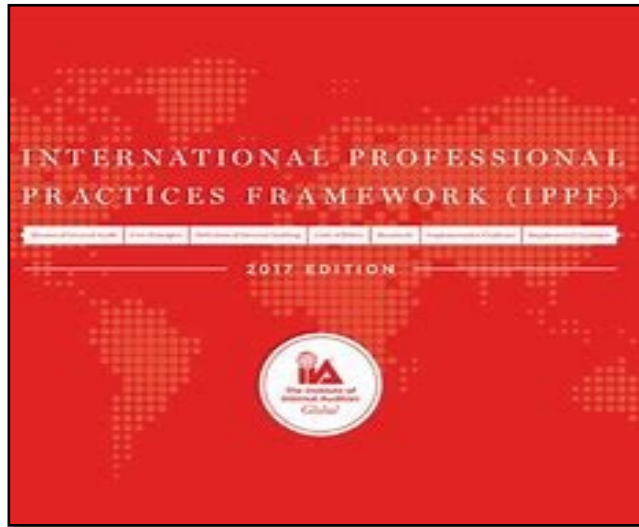
- **Office of Audit Services Mission and Authority**
- **Professional Audit Standards Require a Risk-Based Audit Plan**
- **Risk-Based Audit Plan:**
 - Development Process
 - Objectives, Scope, and Result
 - Other Required Contents
 - Activities for FY 22-23
 - Audits (53%) Comprised of Audits, Special Projects, and Corrective Action Plan Assurance
 - External Audit Coordination (10%)
 - Compliance – State Exchange Improper Payment Measurement (10%)
 - Office of Audit Services Transformation Plan (3%)
 - Management and Administration (17%)
 - Required Audit Support Activities (6%)

OFFICE OF AUDIT SERVICES MISSION AND AUTHORITY

- **Mission:** The mission of Office of Audit Services is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

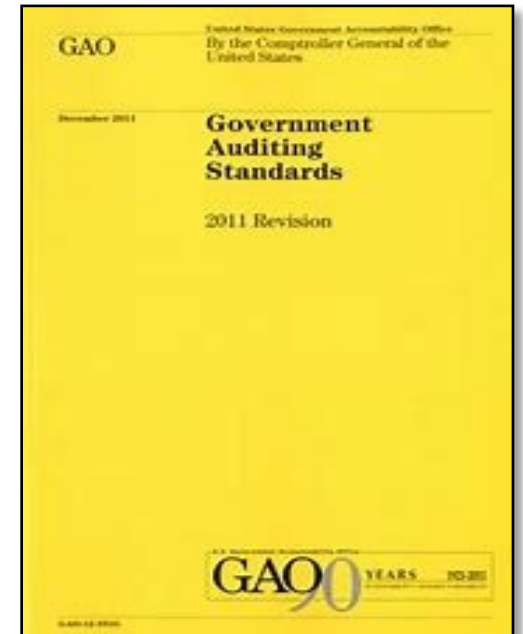
- **Authority:**
 - ✓ Government Code section 1237
 - Requires state agencies consider establishing an internal audit unit
 - ✓ Government Code section 13071
 - State agency auditors shall utilize the “International Standards for the Professional Practice of Internal Auditing” (Red Book)
 - ✓ Government Code sections 13885 to 13888
 - Various requirements including audit committee and other appropriate standards
 - ✓ State Administrative Manual Section 20040
 - ✓ Covered California Internal Audit Services Charter (5/10/16 Audit and Finance Committee last approved)
 - ✓ Professional Audit Standards:
 - International Standards for the Professional Practice of Internal Auditing (aka Red Book)
 - Generally Accepted Government Audit Standards (aka Yellow Book)

PROFESSIONAL AUDIT STANDARDS REQUIRE A RISK-BASED AUDIT PLAN



- **“Red Book”** – International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors (IIA)
- The mandatory elements include the *International Standards for the Professional Practice of Internal Auditing (Standards)*

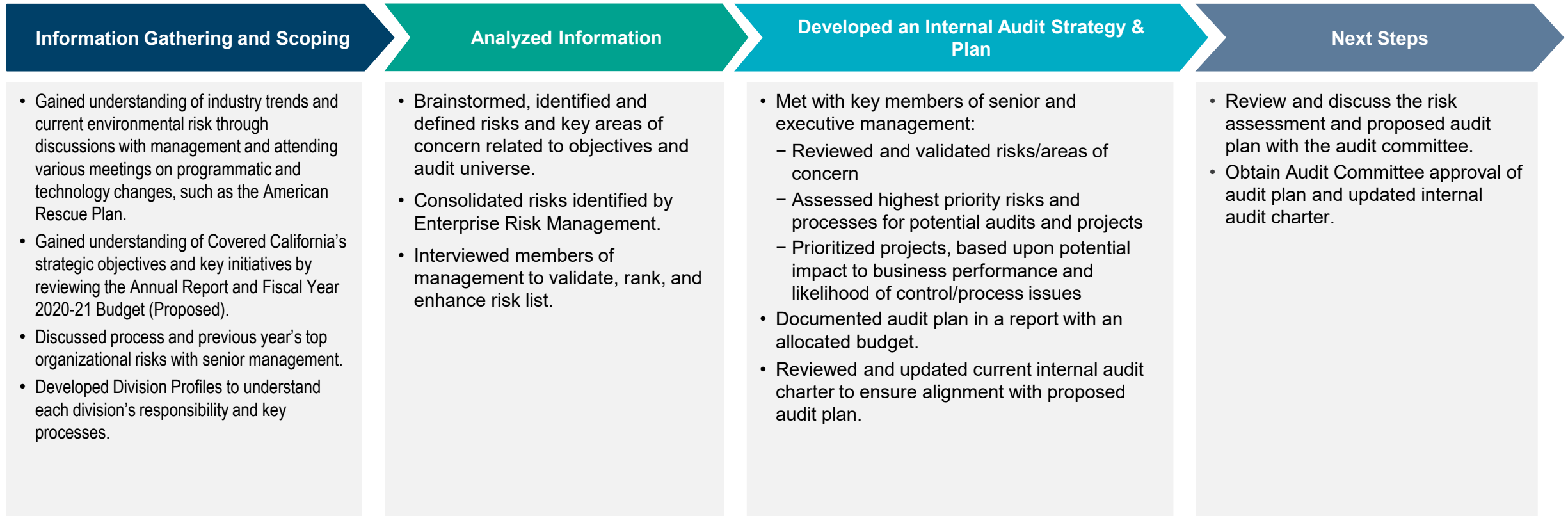
“Yellow Book” – Generally Accepted Government Auditing Standards (GAGAS) from the U.S. Government Accountability Office (GAO)



RISK-BASED AUDIT PLAN: DEVELOPMENT PROCESS

Purpose: The audit risk assessment and annual audit plan development process provides a consistent methodology for the Office of Audit Services to systematically:

- Understand the operations of Covered California and its divisions
- Identify current and potentially emerging risks; anticipate vulnerabilities; and assess each risk’s potential impact on Covered California and its operations. This also includes consideration of prior audit findings and risk exposures identified in management reviews.
- Identify, evaluate and prioritize potential audits based on the level of risk and significance to Covered California.



RISK-BASED AUDIT PLAN: OBJECTIVES, SCOPE, AND RESULT

Audit Plan Objectives:

The Office of Audit Services has developed this risk-based Annual Audit Plan with the following objectives in mind:

1. Improve the effectiveness of Covered California's governance, risk management, and control processes.
2. Assist Covered California leadership in the discharge of their oversight, management, and operating responsibilities.
3. Assist management in addressing Covered California's significant financial, operational, and compliance risks and making informed risk acceptance decisions.
4. Support efforts to identify, evaluate, and mitigate risks; Evaluate the existence, efficiency, and effectiveness of mitigating controls.
5. Provide assurance to management that internal controls are in place and operating as intended.
6. Add value and improve Covered California's operations.

Audit Plan Scope and Frequency:

- Fiscal Year 2022-2023 (July 1, 2022 through June 30, 2023)
- Frequency of Audit Plan: Annual

Result:

The internal audit plan is intended to ensure that internal audit coverage adequately examines areas with the greatest exposure to the key risks that could affect the organization's ability to achieve its objectives.

RISK-BASED AUDIT PLAN: OTHER REQUIRED CONTENTS

QUALITY ASSURANCE AND IMPROVEMENT PLAN

Internal Assessments and On-going Monitoring, such as:

- Internal Audit Manual
- Workpaper review & sign-off
- Quality Assurance Review Checklists

External Assessments (peer reviews) are required every 3 years by GAGAS standards and every 5 years by IIA standards.

AUDIT RESULTS REPORTING

All audit reports are reviewed by the audit clients and/or program management and Internal Audits' management prior to release.

This ensures that reports are:

- ✓ Factual
- ✓ Accurate
- ✓ Free of bias

Final Reports are distributed to:

- ✓ Program management
- ✓ Senior management and executive leadership
- ✓ Audit Committee

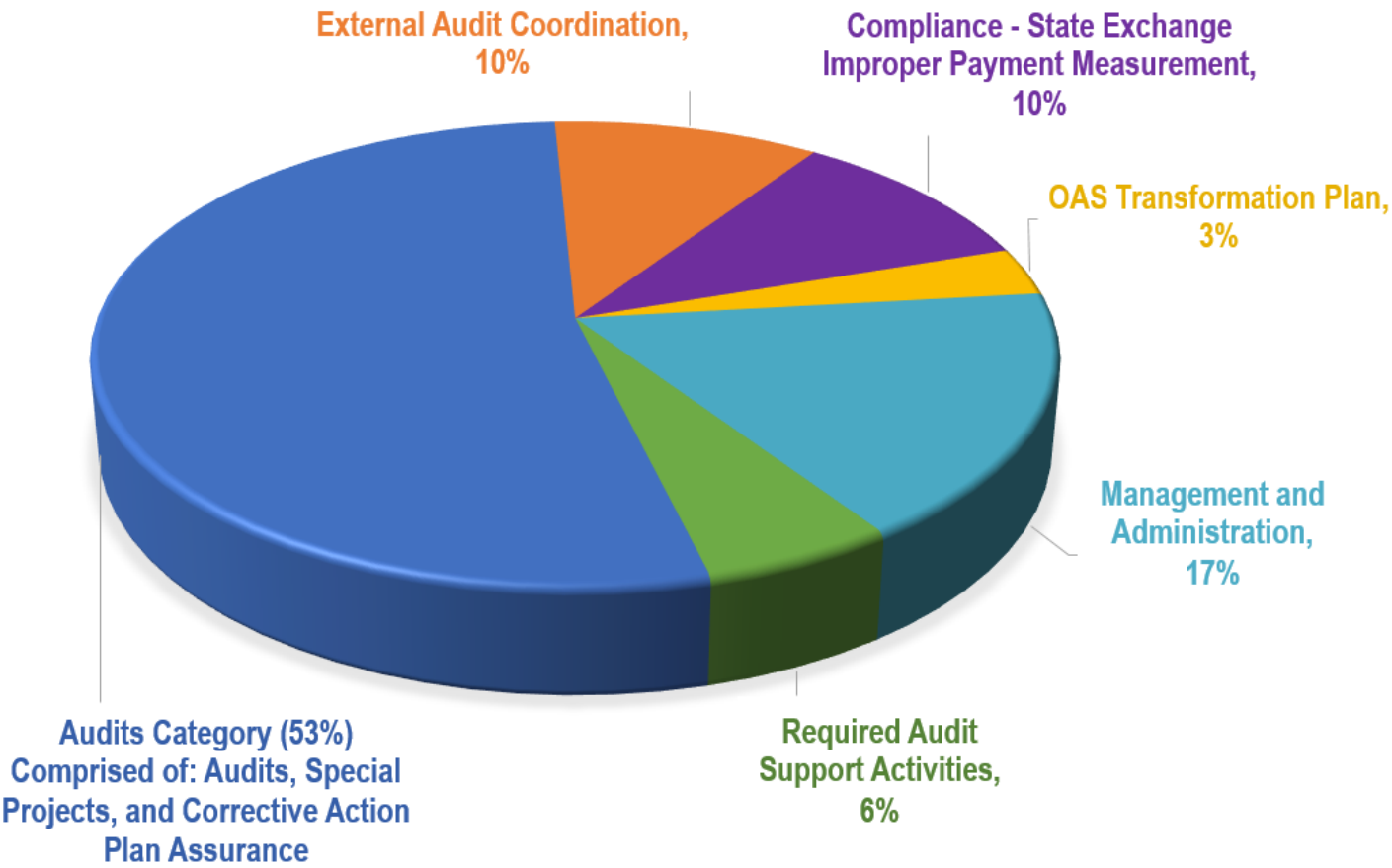
AUDIT FOLLOW-UP

Monitor previous audit findings to ensure that management is implementing the agreed-upon corrective action plans or, alternatively, if management's acceptance of the risk is appropriate.

RISK-BASED AUDIT PLAN: ACTIVITIES FOR FY 22-23

For the proposed FY 22-23 annual audit plan, the chart below depicts the distribution of work based on hours and resources of the team. It demonstrates that the majority of planned hours are allocated to internal audits (53.1%), with the remaining time allocated to our other lines of services, advisory services, audit coordination, as well as follow-up monitoring and support activities. It also demonstrates our maturity as an internal audit function and the importance of devoting time to management and training.

DISTRIBUTION OF HOURS FOR OFFICE OF AUDIT SERVICES ACTIVITIES



FY 22-23 Distribution of Planned Work		Percent
Audits Category (Audits, Special Projects, & CAP Assurance)		53.1%
External Audit Coordination		10.4%
Compliance - SEIPM		10.4%
OAS Transformation		3.3%
Management and Administration		17.3%
Required Audit Support Activities		5.6%

AUDITS

Internal Auditing adds value and improves Covered California’s operations by providing independent, objective assurance and consulting activities. The Office of Audit Services helps Covered California accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Area Under Review	Description/Objective	Hours
<u>Carry-over from Prior Year Approved Audits</u>		
Business Continuity Planning (in-progress)	Compliance audit over business continuity and technology recovery planning. Assess that business continuity planning is being performed and that plans are reviewed regularly and are accessible.	158
Accounts Payable (in-progress)	Review internal controls over Financial Management Division’s (FMD) review, processing, and encumbrance of invoices	1,020
Contracting (in-progress)	Review internal controls over contract development, renewal, monitoring, and payment approval	873
Call Center User Access (in-progress)	Review internal controls over user access at the call center surge vendor (TTEC, formerly Faneuil)	200
Employee Separation (in-progress)	Review internal controls over employee separation	601
Human Resources	Review internal controls over employee pay, time reporting, and leave balances (evaluate controls after Workday implementation)	800

AUDITS (CONTINUED)

Internal Auditing adds value and improves Covered California’s operations by providing independent, objective assurance and consulting activities. The Office of Audit Services helps Covered California accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Area Under Review	Description/Objective	Hours
<u>Carry-over from Prior Year Approved Advisory/Consulting</u>		
Covered California for Small Business Internal Control Consultation	Consulting on internal controls of Covered California for Small Business’s operations with NFP (request by leadership)	250
<u>Internal Control Audits</u>		
Service Center	Review internal controls over CalHEERS L3 (override) authorization use and monitoring	500
CalHEERS/CCIT	Review internal controls over CalHEERS help desk ticket process	500
Agent Payments	Review internal controls over carrier records for agent payments	500
Expense Reimbursements	Review internal controls over travel/expense reimbursements and the appropriate use of Concur (State Travel Agent)	500
Workpaper/Audit Report Review		2,404
Total		8,356 41%

SPECIAL PROJECTS

Internal Auditing adds value in a variety of ways, including consulting and advisory services. These are provided to assist management and the Board by performing evaluations, participating in special projects, providing training on internal controls, and assisting other divisions with a variety of issues.

Activity	Description/Objective	Hours
Special Projects (Board/Audit Committee/Executive Leadership)	Special requests where the Office of Audit Services can provide a unique and independent assessment.	330
Internal Control Advisory Services	Advising management on the development and implementation of internal controls.	280
Compliance Support	Support and advisory services to management on compliance with laws, regulations, etc.	200
Agency/Division Training (Internal Control)	Training on internal controls and audits provided to Covered California employees during onboarding and annually.	200
Total		1,010 5%

CORRECTIVE ACTION PLAN ASSURANCE

Activity	Description/Objective	Hours
External/Internal Audit Corrective Action Plan (CAPs) Monitoring	Monitoring and assurance that corrective action plans from prior audits are completed timely and appropriately mitigate the risk identified.	1000 (External) 400 (Internal)
Total		1400 7%

EXTERNAL AUDIT COORDINATION

Covered California is audited annually by external federal and state control entities. The Office of Audit Services coordinates those audits with internal audit clients and ensures timely communication, and any findings from those audits are timely and corresponding corrective actions are appropriately resolved.

Activity	Description/Objective	Hours
CMS APTC Audits	Covered California assists CMS contracted auditors with information requests related to audits of issuers to assess compliance with the APTC program requirements. (45 CFR § 156.480, 156.705, and 156.715)	100
Programmatic Audit	45 CFR § 155.1200(c) requires Covered California to engage an independent qualified auditing entity to perform an annual independent programmatic audit.	500
Ad Hoc Audit	Additional external audits are sometimes contracted for to obtain additional assurance. Last year, this included an audit of state subsidies.	300
Financial Statement Audit	45 CFR § 155.1200(c) requires Covered California to engage an independent qualified auditing entity to perform an annual independent external financial audit.	400
Other External Audits	Coordination of other external federal and state audits that may be initiated by CMS, California State Auditor, etc.	500
Corrective Action Plan Tracking and Reporting	Ensuring that corrective action plans (CAPs) resulting from audit recommendations are timely prepared and submitted to the auditors. See CAP Assurance work outlined separately above.	300
Total		2,100 10%

STATE EXCHANGE IMPROPER PAYMENT MEASUREMENT

Activity	Description/Objective	Hours
<p>State Exchange Improper Payment Measurement (SEIPM) for Pilot (pre-implementation)</p>	<p>Dedicated project team responsible for coordinating with CMS on the organization-wide Pilot pre-implementation project to prepare for the official SEIPM annual measurement cycle planned for 2024.</p> <p>Background: The Payment Integrity Information Act (PIIA) of 2019, government agencies are required to identify, report and reduce improper payments. In compliance with the PIIA, the CMS' SEIPM program will identify, measure and report erroneous payments. The SEIPM program will measure improper payments for Advance payments of the Premium Tax Credit (APTC) administered by the exchanges. The SEIPM program is currently under development.</p> <p>Covered California is working with CMS under a pre-implementation Pilot Phase to review methodology and ensure readiness for the official rollout of the official SEIPM annual measurement program planned for 2024.</p> <p>These SEIPM activities fall under the Compliance responsibilities of the Office of Audit Services. For the Pilot, the dedicated SEIPM Project Team, mentioned above, is comprised of Program Integrity Division team members, including non-Office of Audit Services personnel. SEIPM compliance activities will require additional resources.</p>	<p>2,100</p>
<p>Total</p>		<p>2,100 10%</p>

OFFICE OF AUDIT SERVICES TRANSFORMATION PLAN

Enhance the audit skill set and train the audit team; assure continued compliance with audit standards.

Activity	Description/Objective	Hours
Continuing Professional Education	Auditors are required to take approximately 40 hours per year of continuing professional education in order to comply with audit standards	440
Office of Audit Services Transformation Plan	Continue to enhance the audit skill set and train the audit team; ensure compliance with audit standards.	150
Training	Additional audit and Covered California required professional development training	80
Total		670 3%

MANAGEMENT AND ADMINISTRATION

Management and supervision is provided in order to maintain high operational standards and ensure our auditors are continuing to improve and learn new skills.

Activity	Description/Objective	Hours
Audit Committee Support	Requests of the audit committee; Audit Committee meeting preparation; Interim reporting to include final audit reports received	96
Management & Supervision	Management and supervision of audit functions and personnel	2,200
Administrative Support	Administrative support activities such as timekeeping, leave accounting, training tracking, expense reimbursements, etc.	942
Contract Development & Monitoring	Various contracts for external audits and/or consulting services	60
Staff Recruitment	Activities for recruiting and filling open and vacated positions	200
Total		3,498 17%

REQUIRED AUDIT SUPPORT ACTIVITIES

The Office of Audit Services performs non-audit activities that support improvement and management of the office. These activities seek to provide efficiencies in how we provide audit services and improve the services we provide to Covered California.

Activity	Description/Objective	Hours
Electronic Workpapers Implementation	Procurement and implementation of an audit software solution to streamline the audit process, to improve performance, to better demonstrate compliance, and to manage and document the audit activities of the Office of Audit Services	448
Quality Assurance and Improvement Program	Continued development and implementation of a Quality Assurance and Improvement Program to ensure conformity with IIA and GAGAS standards and promote ongoing improvement of our audit activities.	300
Annual Risk Assessment and FY 23-24 Audit Plan	Activities related to the annual risk assessment and development of an annual audit plan, including risk discussions with senior management, Audit Committee, and the Board.	194
Data Analytics Implementation	Implementation of a data analytics program to identify areas for continuous improvement and monitoring of controls. We will define and implement various analytics to review trends and unusual transactions that might identify risk areas. We will also identify collaboration opportunities with other business units within the Administration Division and FMD. This initiative will also provide more robust and timely audit results and recommendations.	200
Total		1,142 6%



Questions

PUBLIC COMMENT

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RISK-BASED AUDIT PLAN – PROPOSED FY 2022-2023

Action Item:

Approval of the Risk-Based Audit Plan for FY 2022-2023



Fiscal Year 2022-23 Annual Audit Plan

Office of Audit Services
Program Integrity Division

Ginny Veneracion-Alunan, CPA
Chief Audit Executive and
Deputy Director, Program Integrity

WRAP-UP AND NEXT STEPS

PROPOSED QUARTERLY MEETING DATES

November 2022

- Plan Year 2021 Programmatic Audit Results

February 2023

- Review of Audit Activity
- Organizational Independence Review
- State Exchange Improper Payment Measurement

June 2023

- Review and Approval of FY 2023-2024 Risk-Based Audit Plan
- Review of annual report of audit activities

APPENDIX

AUDIT COMMITTEE ROLES AND RESPONSIBILITIES

Review the Audit Committee Charter annually and recommend any proposed changes to the Board.

Review and approve the Internal Audit Charter at least annually.

Review and approve the annual risk-based audit plan and assess OAS's performance relative to its plan.

Advise the Board about increases and decreases to the requested audit resources to achieve the internal audit plan.

Consider the effectiveness of Covered California's governance, risk management, and internal control systems.

Understand the scope of internal and external auditors' review of internal control and obtain report on significant findings and recommendations.

Review the results of internal audit reports and reviews, including any difficulties encountered.

Review the status of corrective actions taken to address audit findings.

Ensure that OAS follows the Institute of Internal Auditors' International Professional Practices Framework and other auditing standards as appropriate.

Receive confirmation from the Chief Audit Executive of the independence of the internal audit organization and its activities.

Review and provide advice on the governance process established and maintained within Covered California and the procedures in place to ensure that they are operating as intended.

Obtain reasonable assurance with respect to the organization's governance process.

Regularly report to the Board about committee activities, issues, and related recommendations. Provide an open avenue of communication between OAS and the Board members.

PROFESSIONAL STANDARDS – IPPF STANDARDS (“RED BOOK”)

IIA Standard 2010

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.

IIA Standard 2010.A1

The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

IIA Standard 2020

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.

