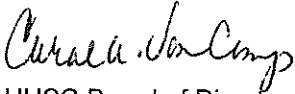
 <p>HAWAII HEALTH SYSTEMS CORPORATION <i>"Touching Lives Everyday"</i></p> <p>POLICY</p>	<p>Department: Internal Audit</p>	<p>Policy No.: IA 001A</p>
	<p>Issued by: Internal Auditor</p>	<p>Revision No.: 1</p>
<p>Subject: <i>Internal Audit Function Charter</i></p>	<p>Approved by:  HHSC Board of Directors By: Carol A. Van Camp Its: Secretary/Treasurer and Audit & Compliance Committee</p>	<p>Effective Date: October 13, 2011</p>
		<p>Supersedes Policy: November 13, 2008</p>
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I. Mission and Scope of Work

The mission of the corporate office internal auditing function is to provide independent and objective assurance and consulting services that are guided by a philosophy to add value and improve the operations of HHSC. It helps HHSC accomplish its objectives by bringing a systematic, disciplined approach to evaluate the effectiveness and efficiency of governance, risk management, and internal control processes (known as GRC).

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

- Risks are identified timely and managed to an acceptable level
- Interaction with the various governance groups occurs as needed
- Significant financial, managerial, and operating information is accurate, reliable, and timely
- Internal control structures are adequate and operating effectively
- Employee's actions are in compliance with policies, standards, procedures, and applicable 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 timely and properly addressed.

Opportunities for improving management control, operational efficiency, and the organization's image may be identified during audits. These items will be communicated to the appropriate levels of management and the Board.

II. Role

The internal audit activity is established by the Corporate Board of Directors. The Board considers recommendations for decisions presented by the Audit & Compliance Committee ("ACC"), a committee of the Corporate Board of Directors. The internal audit activity's responsibilities are defined by the Board as part of their oversight role.

III. Professionalism

The internal audit activity looks to the Institute of Internal Auditors' "Definition of Internal Auditing", the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* (Standards) for guidance, to the extent this guidance is relevant to a state owned health system entity. This guidance constitutes principles of the fundamental goals for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be considered as applicable to guide operations. In addition, the internal audit activity will adhere to relevant HHSC policies and procedures and the internal audit activity's standard operating procedures manual (see policy IA 002).

IV. Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of HHSC's (and its affiliated entities as included in the consolidated financial statements) records, physical properties, and personnel pertinent to carrying out any board approved engagement or audit activity under review. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have direct and unrestricted access to the Board relating to internal audit concerns.

The Internal Auditor shall have the authority to allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish the audit objectives to fulfill the workplan and priorities approved by the Board and subject to HHSC policies with management and oversight by the ACC. The Internal Auditor shall also have the authority to obtain reasonable assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization, within budgetary constraints.

V. Organization

The Internal Auditor will report functionally to the ACC for purposes of establishing the workplan and reviewing the results of audits and administratively to the President and Chief Executive Officer ("PCEO") or designee. The ACC and Internal Auditor will seek full board approval of audit plans.

To fulfill the functional reporting requirement, the ACC will:

- Approve the internal audit charter;
- Approve the audit team risk assessment, audit plan, and budget for full board consideration;
- Advise the PCEO on the appointment, removal, and evaluation of Internal Auditors;
- Ensure Internal Audit has direct and open communication with the ACC and board;
- Be satisfied that the internal audit function has adequate resources to perform its responsibilities taking into consideration other demands for resources; and
- Determine if there are inappropriate scope or budgetary limitations.

Administrative reporting will include the following:

- Budgeting and management accounting
- Human resource administration
- Internal communications and information flows
- Administration of HHSC's internal policies and procedures (i.e. expense approvals, leave approvals, floor space, etc.)
- Retention, discharge, performance evaluation, discipline, and compensation decisions of the Internal Auditors, in compliance with state and HHSC laws and rules, and after consultation with the ACC.

VI. Independence and Objectivity

All internal audit activities will remain free of influence by any element in the organization, including matter of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude, except where the ACC or Board determines that it is prudent to obtain input from other elements.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditors' judgment or reasonably be construed to compromise their independence.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Internal Audit will confirm to the ACC, at least annually, the organizational independence of the internal audit activity.

VII. Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal control processes as well as to the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This includes:

- Evaluating the reliability and integrity of the information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Evaluating and assessing significant merging/consolidating functions and new or changing services, processes operations, and control processes concurrent with their development, implementation, and/or expansion.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management, and internal controls as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Reporting new or emerging trends and best practices within the industry.

- Evaluating specific operations at the request of the board or management, as appropriate.
- Assisting in the investigation of significant suspected fraudulent activities within the organization.
- Submit a report on the results of the annual internal audit of the management and operations of the corporation and regions in accordance with Act 182, Public Laws of Hawaii, 2007.

VIII. Internal Audit Plan

At least annually, Internal Audit will submit to senior management and the Board an internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as budget and resource requirements for the next calendar year. Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the board. Any significant deviations from the approved internal audit plan will be recommended to senior management and the Board through the ACC. The Board shall approve significant deviations.

IX. Reporting and Monitoring

A written report will be prepared and issued by the Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board via the ACC.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (not to exceed 30 days from the date of the report) by management of the audited area, should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared and shall be periodically reported to the Board.

X. Periodic Assessment

The Internal Auditor will periodically report to senior management and the Board on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.

In addition, the Internal Auditor will communicate to senior management and the board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessment conducted.