

## **INTRODUCTION**

The Internal Audit charter serves as a guide to the Internal Audit Division in the performance of its duties. The Charter provides a basis for management and the Audit Committee to use in evaluating the operations of the Internal Audit function.

As defined by the Institute of Internal Auditors (IIA), "Internal auditing is 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 governance processes".

## **SCOPE**

The scope of the Internal Audit role encompasses the following:

- Utilize a risk assessment framework to develop work plan.
- Review and test the adequacy of the internal control systems.
- Review and test the level of compliance with legislation, policies, procedures and internal controls.
- Review program performance regarding the efficiency, effectiveness and economy in the use of resources.
- Reviewing the adequacy of the management responses to external audit concerns, having regard to the risks and the costs involved.
- Provide recommendations to improve internal control systems; efficiency and effectiveness; policies, procedures and processes.

## **AUTHORITY**

The Manager - Internal Audit (and/or designate) is authorized to:

- Have unrestricted access to all functions, records, property, and personnel (in order to conduct the audit work plan).
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in the organization where they perform audits, as well as other specialized services from within or outside the organization.

## **INDEPENDENCE STANDARD**

Independence is an essential component to building public trust and preserving objectivity and integrity associated with the audit function. All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of an independent and objective attitude necessary in rendering reports.

Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems, policies, procedures, prepare records or engage in any other activity which would normally be audited.

With respect to independence and objectivity, The Institute of Internal Auditors (IIA) standards states:

*The internal audit activity must be independent, and internal auditors must be objective in performing their work.*

*The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.*

*The ideal reporting situation is for the CAE (Chief Audit Executive) to report **administratively** to the Chief Executive Officer of the organization and **functionally** to the audit committee, board of directors, or some other appropriate governing authority. The accounting department, chief accountant, or finance director would not normally be an appropriate level to report to.*

## RESPONSIBILITIES

The Manager-Internal Audit has the responsibility to:

- Develop a flexible annual audit plan using an 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 as well as periodic updates.
- Implement the annual audit plan, as approved, including any special audit projects requested by the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Issue periodic reports to the audit committee and management summarizing results of audit activities.
- 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.

## AUDIT PLANNING

Each year, the Manager-Internal Audit shall prepare/update a 3-year work plan, setting out the proposed schedule of audits and other undertakings proposed. The 3-year work plan is presented to the Audit Committee for approval. To generate this plan, the following sources are considered:

- Risk-based assessment.
- Requests from the Audit Committee and the Executive Management Team.
- Any audits planned for the past year but delayed or not completed.
- Follow up of past audit engagements.

- Any conditions or concerns discovered or communicated throughout the past year.

**REPORTING**

A written audit report is prepared and issued by the Manager-Internal Audit following the conclusion of each audit. The report will include management’s responses and the corrective action plans for specific findings and recommendations. Management’s response will include a statement of general agreement or disagreement with the stated findings and recommendations as well as a timeframe for anticipated completion of action to be taken and an explanation for any recommendation not addressed. Internal Audit is responsible for appropriate follow up on audit findings and recommendations. All audit reports / follow up reports are presented to the Audit Committee.

**PROFESSIONAL STANDARDS**

Internal Audit will be guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

**AUDIT COMMITTEE AND INTERNAL AUDIT GOVERNANCE SCORECARD**

<b>Title</b>	<b>Standard</b>	<b>Structure</b>	<b>Rating</b>
<b>Governance</b>	Establish Audit Committee with oversight of the Internal Audit functions.	City of Thunder Bay Audit Committee established with City Council and citizens representatives.	<b>Good</b>
<b>Terms of Reference – Audit Committee</b>	Establish Terms of Reference for the Audit Committee establishing roles, authority and responsibilities.	Terms of Reference for the Audit Committee established and reviewed annually by the Audit Committee and provided to City Council.	<b>Good</b>
<b>Internal Audit Charter</b>	Establish the internal audit charter outlining the roles, responsibility, and independence of the Internal Audit function consistent with the standards of the Institute of Internal Auditors.	Internal Audit Charter established and reviewed annually by the Audit Committee and provided to City Council.	<b>Good</b>
<b>Internal Audit Reporting relationship</b>	The internal audit activity must be independent, and internal auditors must be	The Manager-Internal Audit currently reports functionally to the Audit	<b>Fair/ Needs Improvement</b>

Title	Standard	Structure	Rating
	objective in performing their work. The ideal reporting situation is for the CAE (Chief Audit Executive) to report administratively to the Chief Executive Officer of the organization and functionally to the audit committee, board of directors, or some other appropriate governing authority.	Committee (through City Manager for Audit functions) and administratively to the Commissioner of Corporate Services	
<b>Risk Based Work Plan</b>	The chief audit executive, in consultation with senior management and the audit committee, establishes the scope of activities of the internal audit function. The process considers the cost justification of each element of audit activity.	As outlined in the Internal Audit Charter (and the Institute of Internal Auditors), a risk assessment framework is used to develop the internal audit work plan, which is presented to the Audit Committee annually.	<b>Good</b>
<b>Independence Letter</b>	The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.	The Manager-Internal Audit provides a written Independence memo to the Audit Committee annually confirming his/her ability to function independently.	<b>Good</b>
<b>Internal Audit Reports to Audit Committee</b>	A written audit report is prepared and issued by the Chief Audit Executive following the conclusion of each audit. The report will include management's responses and the corrective action plans for specific findings and recommendations.	Internal Audit provides and presents internal audit reports to the Audit Committee.	<b>Good</b>
<b>Annual Report to City Council from the Audit Committee</b>	Audit Committee shall provide an annual report to City Council on its activities, including a review of its terms of reference, and	Audit Committee provides an annual report to City Council on its activities, including a review of its terms of reference, and a	<b>Good</b>

Title	Standard	Structure	Rating
	a summary of how the Committee has fulfilled its role and mandate.	summary of how the Committee has fulfilled its role and mandate.	

**Canadian Institute of Chartered Professional Accountants – Reporting Relationship**

Reporting options, each of which has advantages and disadvantages, include:

Reporting to	Advantages	Disadvantages
CEO	Establishes audit status.	CEO may have too many direct reports.
CFO	Reinforces financial control. CFO often understands the role of internal audit and can provide advice.	Potential conflict of interest: <ul style="list-style-type: none"> <li>• if audit findings reflect badly on CFO</li> <li>• if resources are diverted to lower priorities.</li> </ul>
Other senior executive	Good for audit independence if the executive has no or few direct operational responsibilities subject to significant internal audit scrutiny.	Executive may lack knowledge of operations and internal controls, may not have a motivation for internal audit to be effective, or may lack the ability to influence.
Chair of audit committee	Good for audit independence.	Internal audit is no longer seen as supporting and partnering with management. Chief audit executive may lose status and acceptance as a member of the management team.