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**Subject:** Internal Audit Charter Update

**Report to:** Audit Committee

**Report date:** Monday, March 18, 2019

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## **Recommendations**

That the Internal Audit Charter **BE REVISED** as recommended in Appendix 1 of Report 11-2019.

## **Key Facts**

- The Internal Audit Charter was previously approved by Audit Committee on April 3, 2017 as AC-C 4-2017.
- An Internal Audit Charter is a foundational policy document defining the role, responsibility and mandate of the Internal Audit function.
- This report is designed to provide minor wording updates and to inform the new Audit Committee.

## **Financial Considerations**

There are no immediate budgetary considerations associated with this report.

## **Analysis**

On April 3, 2017, Audit Committee approved the Internal Audit Charter in AC-C 4-2017. An Internal Audit Charter is a strategic policy framework to define the work of an organization's internal audit function. It is a mandatory instrument required by the Institute of Internal Auditors (IIA – a global professional association of internal auditors to which Niagara Region's Internal Audit function subscribes).

The document attached in the appendix contains minor wording updates (mostly to address the name of the team) as well as clarity on the mandate of the Internal Audit function within Niagara Region's scope of operations (the Charter was previously silent on this). The revision proposed in the Charter proposes to clarify Internal Audit's mandate to Niagara Regional departments and divisions, and will not include agencies, board, commissions or local area municipalities. The document in the appendix is presented twice: the original from April 2017 with changes marked using 'Track Changes'; and the final version.

## **Alternatives Reviewed**

Principles and policy wording from other Internal Audit Charters published by comparable municipalities including City of Hamilton, Mississauga, Brampton, Guelph and the Regions of York and Peel were considered.

## **Relationship to Council Strategic Priorities**

Value-for-money (VFM) audits were identified and approved as the previous term of Council's Strategic Priority – Advancing Organizational Excellence. The goal of this Strategic Priority was to "Build a strong internal foundation for Niagara Region to enable a more prosperous Niagara."

Following the completion of the 2015 and 2016 audits, Council approved a permanent Internal Audit function. The permanent internal audit function was named Internal Control and Organizational Performance division.

## **Other Pertinent Reports**

AC-C 4-2017 Audit Committee Terms of Reference (See pages 10-15)

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Internal Control & Organizational  
Performance

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### **Recommended by:**

Todd Harrison, CPA, CMA  
Commissioner/Treasurer  
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### **Submitted by:**

Ron Tripp, P.Eng.  
Acting Chief Administrative Officer

*This report was prepared in consultation with Frank Marcella (Internal Auditor), Joan Ugwu (Process & Compliance Auditor), and Xiang Gao (Internal Audit Analyst).*

## **Appendices**

Appendix 1                      Internal Audit Charter



## Internal Audit Charter

The Niagara Region's Internal Audit function is a group within the Internal Control & Organizational Performance division. This Charter consists of the following sections:

1. Mission
2. Values and Principles
3. Code of Ethics
4. Rule of Conduct
5. Scope of Work
6. Independence
7. Accountability and Responsibility
8. Authority

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### 1. Mission

Internal Audit provides independent, objective assurance and consulting services designed to add value and improve the organization's operations. The Niagara Region's Internal Audit function will help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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It is the mission of Internal Audit to work with clients to achieve their business objectives. This will be accomplished by developing innovative partnerships and providing value-added solutions and helping clients manage risks, exploit opportunities, demonstrate accountability and support continuous business improvement.

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Internal Audit promotes accountability to organizational objectives by providing assurance to the Corporate Leadership Team that business and control risks are appropriately identified, assessed, managed and reported. It accomplishes this objective by furnishing independent and objective analyses, audits, evaluations, advice and consulting. Internal Audit is also mandated to undertake activities that promote effective risk management and controllership, including processes that facilitate consistent and systematic identification and reporting of risk.

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### 2. Values and Principles

Internal Audit will operate within the established Niagara Region employee values and in accordance with the following principles:

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- We will value, above all, the ability to serve our clients.
- We will demonstrate competence and due professional care in the execution of duties.
- We will provide balanced, objective reporting on risk and control to management and the Audit Committee.
- We will ensure uncompromising commitment to ethics and integrity.
- We believe that understanding our clients' culture and business environment is essential to excellence in service.
- We believe in teamwork, consultation and co-operation with clients, colleagues and private sector partners.



## Internal Audit Charter

- We believe that accountability is essential to the responsible management of public services.
- We will resource our office with the necessary skills to respond to the needs of Corporate Leadership Team and Audit Committee.

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### 3. Code of Ethics

Internal Auditors are expected to apply and uphold the following principles:

1. Integrity - the integrity of an Internal Auditor establishes trust and thus provides the basis for reliance on their judgment.
2. Objectivity – the Internal Auditor exhibits the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Auditor will make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
3. Confidentiality – the Internal Auditor respects the values and ownership of the information they receive and does not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. Competency – the Internal Auditor applies the knowledge, skills, and experience needed in the performance of internal audit services.

### 4. Rules of Conduct

The Office of the Chief Audit Executive and the Internal Auditors within it will adhere to the following rules:

1. Integrity
  - 1.1 – Shall perform their work with honesty, diligence, and responsibility.
  - 1.2 – Shall observe the law and make disclosures expected by the law and the profession.
  - 1.3 – Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
  - 1.4 – Shall respect and contribute to the legitimate and ethical objectives of the organization.
2. Objectivity
  - 2.1 – Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

2.2 – Shall not accept anything that may impair or be presumed to impair their professional judgment.

2.3 – Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### 3. Confidentiality

3.1 – Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 – Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

### 4. Competency

4.1 – Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2 – Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

4.3 – Shall continually improve their proficiency and the effectiveness and quality of their services.

## 5. Scope of Work

Internal Audit's mandate includes all of Niagara Region's programs, processes and departments/divisions. It does not include agencies, boards, commissions or the operations of Local Area Municipalities. To fulfill its role of assisting Niagara Region accomplish its business objectives, the Internal Audit function offers two main business lines:

### 5.1 Assurance

These are services that provide independent assessments of internal processes and controls and the effectiveness of operations. These services consist of compliance, financial, value for money and performance measures audits, control review and pre/post implementation evaluations.

### 5.2 Education and Consulting

These services comprise risk assessments, education and awareness initiatives and specialized consulting. They are intended to provide client support for decision making, the development of plans to improve operations and mitigate risks, implement new policies and re-engineered services and improving the capacity, reliability and integrity of information.

Internal Audit's processes should function in a manner to help ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial and operating information is accurate, reliable and timely.

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## Internal Audit Charter

- Actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and are adequately protected.
- Programs, plans and objectives are achieved.
- Significant legislative and regulatory issues impacting Niagara Region are recognized and addressed properly.
- Quality and continuous improvement are fostered in the organization's control processes.

### 6. Independence

Internal Audit is accountable functionally to the Audit Committee and administratively to the Chief Administrative Officer in a manner outlined in the following section on Accountability. In addition, Audit Committee is responsible for providing input into the performance evaluation of the Chief Audit Executive.

In carrying out individual assignments, internal auditors shall be independent of those directly responsible for the activities subject to audit or evaluation, and report any potential conflicts to the Chair of Audit Committee.

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

### 7. Accountability and Responsibility

The Chief Audit Executive, in the discharge of his/her duties, shall be accountable to the Audit Committee and to the Chief Administrative Officer to:

- Annually develop an audit plan that is based on a corporate risk assessment of the core programs, businesses and services that is approved by Audit Committee.
- Provide at least quarterly updates to Audit Committee on the progress of the audit plan and any other significant issues, developments or findings related to the adequacy and effectiveness of the Region's processes for controlling its activities and managing its risks.
- Reporting any scope limitations that may be obstructing the achievement of the office's objectives.
- Coordinate with other control and monitoring functions, including but not limited to, risk management, compliance, legal, and external audit.

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## Internal Audit Charter

- Establishing appropriate policies and procedures to guide the internal audit function including quality assurance and improvement program.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
- Acting as an ongoing resource to management by providing impartial and objective advice related to control and risk management issues.
- Assisting in the investigation of suspected fraudulent activities within the Region and notify management and the Audit Committee of the results.
- Liaising with the Region's external auditors as appropriate for the purpose of providing adequate audit coverage to the Region.

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### 8. Authority

Internal Audit is authorized to:

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

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Internal Audit is **not** authorized to:

- Perform any operational duties for the Region or its agencies.
- Initiate or approve accounting transactions external to Internal Audit.
- Direct the activities of any Regional employee not employed by Internal Audit, except to the extent such employees have been appropriately assigned to auditing teams or otherwise assist Internal Audit.
- Devise, develop or install systems or procedures, prepare records, make management decisions or undertake any activity which would relieve other staff of any responsibility assigned to them and which could be reasonably construed to compromise the independence of Internal Audit.

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### Standards of Audit Practice

The Chief Audit Executive will strive to meet or exceed the *International Standards for the Professional Practice of Internal Auditing* established by the Institute of Internal Auditors. This Charter takes effect on April 27, 2017.

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