



**Report**  
**Staff Report**  
 The Corporation of the City of Brampton  
 10/7/2024

**Date:** 2024-09-23

**Subject:** **Internal Audit Charter to Align with the 2024 Global Internal Audit Standards**

**Contact:** Claire Fang Mu, Director, Internal Audit

**Report number:** CAO's Office-2024-791

**RECOMMENDATIONS:**

1. That the report titled: **Internal Audit Charter to Align with the 2024 Global Internal Audit Standards** to the Audit Committee Meeting of October 7, 2024, be received; and,
2. That the changes outlined in the updated Audit Committee Terms of Reference and Internal Audit Charter as set out in **Appendix 2: Proposed new Audit Committee Terms of Reference and Internal Audit Charter** be approved; and,
3. That a by-law be passed to amend **By-law 108-2023** to update **the Audit Committee Terms of Reference and Internal Audit Charter** as set out in **Appendix 2** of the subject report.

**OVERVIEW:**

- This report highlights the key updates to the **Audit Committee Terms of Reference and Internal Audit Charter By-law 108-2023**.
- The main driver for changes is the release of the new Global Internal Audit Standards by the Institute of Internal Auditors (IIA), on January 9, 2024. The 2024 Standards replace the 2017 International Professional Practices Framework and will take effect on January 9, 2025. In addition, the recent Gap Assessment performed by IIA also recommended an updated audit charter to align with IIA Public Sector Model Charter.
- The Internal Audit Charter was last updated in June 2023.
- The proposed new Internal Audit Charter is adapted from the IIA's Public Sector Model Charter and incorporates key elements from the June 2023 Audit Charter that are specific to the City.
- The proposed new charter includes feedback from the Corporate Leadership Team (CLT) on the Internal Audit Charter and Internal Audit Mandate.

- The Audit Committee Terms of Reference were also updated to reflect the Audit Committee oversight responsibilities listed in the IIA's Public Sector Model Charter.
- This report includes five appendices:
  - **Appendix 1:** Summary slides highlighting changes from the existing charter to the proposed new charter
  - **Appendix 2:** Proposed new Audit Committee Terms of Reference and Internal Audit Charter
  - **Appendix 3:** Proposed Internal Audit Charter adapted from the Public Sector Model Charter with changes tracked
  - **Appendix 4:** An updated Audit Committee Terms of Reference with changes tracked
  - **Appendix 5:** A chronology of the changes to the Audit Committee Terms of Reference and Internal Audit Charter from 2019 to date

## BACKGROUND:

The Audit Committee was established in 2002 to enable Council members to fulfil their oversight capabilities and stewardship responsibilities. Both the City's Audit Charter and Audit Committee Terms of Reference were presented to the committee.

- The Audit Committee's Terms of Reference are updated at the start of each Brampton City Council term to define the committee's roles and responsibilities.
- The Internal Audit Charter, approved by City Council, formally outlines the purpose, mission, authority, roles and responsibilities, independence provisions, and scope of Internal Audit activities in the City of Brampton.

Starting in June 2023, the two documents were consolidated into a single document titled "Audit Committee Terms of Reference and Internal Audit Charter," which was enacted into **By-law 108-2023**. The Internal Audit Division regularly reviews and updates this combined document, making adjustments as necessary. The IIA Standards also require the Director of Internal Audit to conduct an annual review of the Internal Audit Charter to assess the need for revisions. Updates may arise due to changes to the IIA Standards or shifts in the City's operating environment. Factors that may trigger changes include:

- A notable change in the Global Internal Audit Standards,
- The addition or removal of a municipal service or program,
- A major turnover in the Corporate Leadership Team (CLT) or the Audit Committee membership,
- Major shifts in the organization's strategies, objectives, risk profile, or operating environment, and

- New laws or regulations affecting the nature and/or scope of internal audit services.

With the release of the new IIA audit standards, the City's Audit Committee Terms of Reference and Internal Audit Charter required a review.

## **2024 IIA Global Internal Audit Standards**

On January 9, 2024, the Institute of Internal Auditors (IIA) released its updated Global Internal Audit Standards. These standards are fundamental to the global practice of internal auditing, offering 15 guiding principles and 52 specific standards that form the basis for effective internal auditing. The 2024 Global Internal Audit Standards replaced the previous 2017 Standards and will become effective on January 9, 2025.

The new Standards emphasize two key areas: Standards and Implementation Guidance, structured around five domains. Domain III, *Governing the Internal Audit Function*, directly addresses the roles of the Audit Committee and the CLT. It includes principles that require the Chief Audit Executive (CAE) to collaborate with the Board and Senior Management to establish, independently position, and oversee the audit function's performance.

At the City of Brampton, the Director of Internal Audit serves as the CAE, the Audit Committee serves as the Board, and Senior Management is represented by the CLT.

Domain III introduces *Essential Conditions*, key actions the Audit Committee and CLT must take to ensure the internal audit function operates effectively. These include:

### **6.1 Internal Audit Mandate Essential Conditions for the Board:**

- Discuss the appropriate authority, role, and responsibilities of the internal audit function with the CAE and Senior Management.
- Approve the internal audit charter, including the mandate, scope and types of audit services.

### **6.2 Internal Audit Charter Essential Conditions for the Board:**

- Discuss with CAE and CLT other topics that should be included in the internal audit charter to enable an effective internal audit function.
- Approve the internal audit charter to enable an effective internal audit function.

## **CURRENT SITUATION:**

For effective internal audit governance, it is essential that both the Audit Committee and the CLT fully understand their responsibilities as outlined in the new 2024 IIA Standards. To ensure full compliance, Internal Audit staff engaged the Audit Committee and CLT members in a series of educational and consultative sessions. These sessions

emphasized Domain III, *Governing the Internal Audit Function*, which specifically affects their roles. The sessions also facilitated discussions on decisions relating to the Internal Audit Charter and the Internal Audit Mandate.

### **Consultation Timeline:**

- **May 30, 2024:** Educational session with the CLT on the new Standards.
- **June 13, 2024:** Working session with the CLT to gather input on the Internal Audit Charter and Mandate.
- **June 25, 2024:** Educational session with the Audit Committee to introduce the new Standards and review CLT input.

### **CLT's Input on the Internal Audit Charter**

During the June 13, 2024, CLT workshop, three key decisions were made, which were incorporated into the proposed Charter:

1. Internal Audit will not assume operational roles, such as risk management and compliance.
2. Internal Audit will only provide advisory services upon request from City Council and/or the Chief Administrative Officer (CAO).
  - This decision resulted in revised wording in the Charter to allow Internal Audit to evaluate advisory service requests on a case-by-case basis: “To maintain independence, due to the team’s small size, Internal Audit will not provide advisory services unless requested by City Council or the CAO, subject to Internal Audit’s evaluation on a case-by-case basis.”
3. Internal Audit will maintain a five-year cycle for conducting External Quality Assessments (EQA).

The additional wording to the second decision recognizes there may be times when Internal Audit needs to consider advisory engagement requests and evaluate the feasibility. This addition provides enhanced flexibility to better meet organizational needs.

### **Basis and Methodology for the Proposed Internal Audit Charter**

The City of Brampton's proposed Internal Audit Charter is aligned with the IIA’s Public Sector Model Charter, ensuring adherence to global best practices. To maintain continuity, key elements from the existing charter were preserved, while new sections

were introduced to address evolving needs. Notably, administrative reporting responsibilities were explicitly defined based on feedback from the IIA Quality Assessor.

To streamline the document and eliminate redundancy, the "Audit Committee Oversight" section from the IIA's Model Charter was moved to the Audit Committee's Terms of Reference. This change ensures a clearer delineation of the Committee's comprehensive roles and responsibilities.

Furthermore, input from the CLT was integrated into the proposed charter, incorporating their feedback on the Internal Audit Charter and Internal Audit Mandate to ensure it meets the organization's current governance needs.

### **Comparison of the Proposed Internal Audit Charter and IIA's Public Sector Model Charter**

When comparing the City's proposed Internal Audit Charter with the IIA's Public Sector Model, two key distinctions emerge:

1. The City's Charter prohibits Internal Audit staff from being seconded to other areas, safeguarding audit objectivity. The no secondment rule comes from the existing charter and was approved by the Human Resources and the City's employment lawyer.
2. The City's Charter limits Internal Audit advisory services to requests from Council or the CAO, assessed on a case-by-case basis.

Aside from these, differences are mostly structural. The content is largely aligned with the IIA's model, with historical provisions specific to the City (e.g., no staff secondments) retained for consistency.

### **Comparison of the Proposed and Existing Internal Audit Charter**

The proposed Charter emphasizes alignment with the new IIA Domains and Standards, reorganizing content to reflect these categories:

- "Commitment to Adhering to the Global Internal Audit Standards"
- "Independence, Organizational Position, and Reporting Relationships"
- "CAE Roles and Responsibilities"
- "Ethics and Professionalism"
- "Managing the Internal Audit Function"
- "Communication with the Audit Committee and Senior Management"

Although sections have been renamed, the underlying information has not significantly changed.

Additionally, Internal Audit staff completed a review of the existing Charter against IIA's Public Sector Model Charter, and reorganized information to the Proposed Charter where it was more appropriate. For example, under the existing Charter, the "Scope" section contained several points detailing the duties for the CAE to perform. Under the Proposed Internal Audit Charter, those points have been moved to the "CAE Roles and Responsibilities" section.

**Appendix 3** includes the proposed Internal Audit Charter adapted from the Public Sector Model Charter with tracked changes made, and **Appendix 5** outlines a chronology of the changes to the Audit Committee Terms of Reference and Internal Audit Charter from 2019 to the present.

### **Updated Audit Committee Terms of Reference**

During the update process, the "Audit Committee Oversight" section from the IIA's Model Charter was transferred to the Audit Committee Terms of Reference, eliminating duplication. This revision clarifies the Committee's roles and responsibilities and follows the guidance from the IIA to house oversight functions within the Terms of Reference if such a document already exists. **Appendix 4** contains the updated Audit Committee Terms of Reference with changes tracked.

### **CORPORATE IMPLICATIONS:**

#### **Financial Implications:**

N/A

### **STRATEGIC FOCUS AREA:**

**Government and Leadership:** Focusing on service excellence with equity, innovation, efficiency, effectiveness, accountability and transparency.

**CONCLUSION:**

The new IIA Standards emphasize the relationship between the Director of Internal Audit, the Audit Committee and the CLT. The new standards require regularly reviewing and updating the Internal Audit Charter. Internal Audit staff, working in collaboration with the Audit Committee and the CLT, have made key updates the Charter, including:

- No expansion of Internal Audit into operational roles,
- Advisory services limited to requests from Council and the CAO, and
- Alignment with the IIA's Public Sector Model Charter.

Internal Audit staff will continue to review the Audit Committee Terms of Reference and Audit Charter annually and report any necessary changes to the Audit Committee.

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**Attachments:**

- **Appendix 1:** Summary slides highlighting changes from the existing charter to the proposed new charter
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