



# Key Updates to the Audit Committee Terms of Reference and Internal Audit Charter

October 7, 2024



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# Background

The **Audit Committee was established in 2002** to enable Council members to fulfil their oversight capabilities and stewardship responsibilities. Both the *Audit Committee Terms of Reference* and *Internal Audit Charter* 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*** is approved by City Council and formally outlines the purpose, mission, authority, roles and responsibilities, independence provisions and scope of Internal Audit activities.

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, at the beginning of each Council term, 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.

# Key Factors Driving Charter Revisions

1. **A notable change in the Global Internal Audit Standards**
2. The addition or removal of a municipal service or program
3. A major turnover in the CLT or the Audit Committee
4. Major shifts in the organization's strategies, objectives, risk profile or operating environment
5. New laws or regulations affecting the nature and/or scope of internal audit services

**The release of the new IIA audit standards** in 2024 will become effective on January 9, 2025 and necessitate a review of the City's *Internal Audit Charter* and *Audit Committee Terms of Reference*.

# Standards Central to Our Charter Updates

## Standard 6.1 Internal Audit Mandate



*“The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate.”*

## Standard 6.2 Internal Audit Charter



***“The chief audit executive must develop and maintain an internal audit charter that specifies, at a minimum, the internal audit function’s:***

- Purpose of Internal Auditing.*
- Commitment to adhering to the Global Internal Audit Standards.*
- Mandate, including scope and types of services to be provided, and the board’s responsibilities and expectations regarding management’s support of the internal audit function.”*

## 6.1 Essential Conditions of 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 Essential Conditions of 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.”***

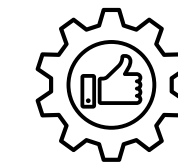
# Basis and Methodology for the Proposed Charter

The City of Brampton's updated Internal Audit Charter is **primarily based on the IIA's Public Sector Model Charter**, ensuring adherence to Global best practices.

To maintain continuity, **key elements from the previous 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 Corporate Leadership Team (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.



Adopt Model Charter



Preserve Key Elements



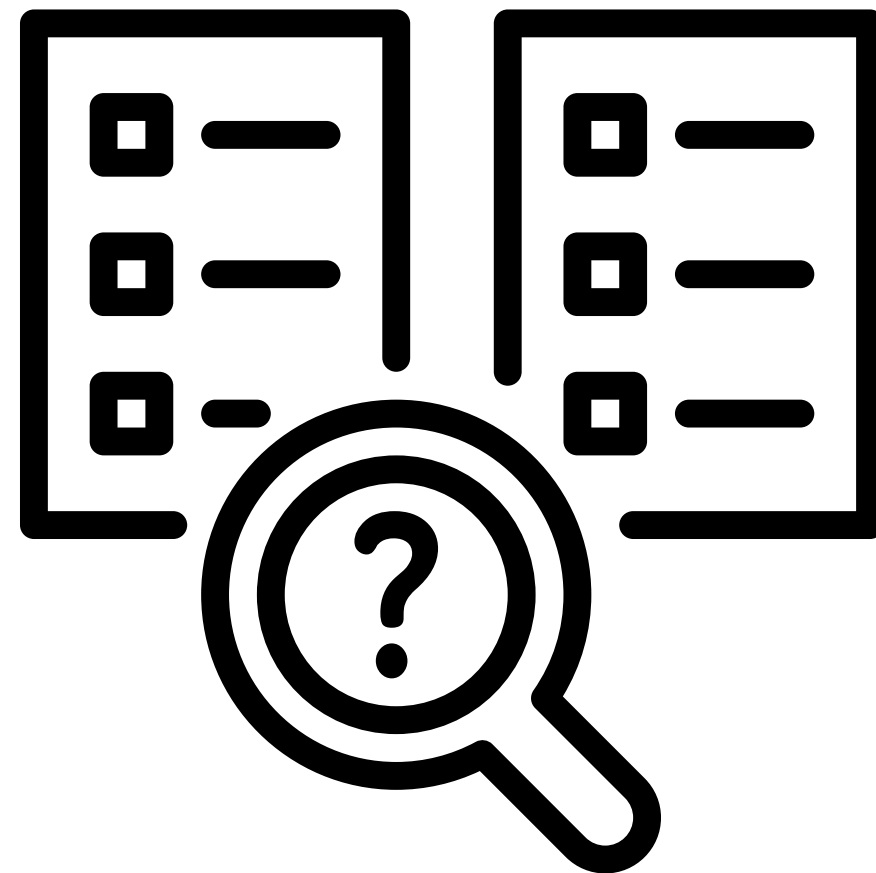
Avoid Redundancy



Incorporate Feedback

# Charter Comparisons to Highlight Key Updates

To facilitate your understanding and demonstrate what has changed, we'll compare the **Proposed Charter** and **Existing Charter** in the following slides.



# Key Difference #1: Reorganized Charter Content with Updated Headings

The proposed charter better aligns with IIA's Public Sector Model Charter and emphasizes on the 2024 Standards and their five domains.

Existing Charter Header	Proposed Charter Header
Standards for Practice	Commitment to Adhering to the Global Internal Audit Standards
Independence and Objectivity	Independence, Organizational Position, and Reporting Relationships
Scope of Internal Audit Activities/Responsibility	CAE Roles and Responsibilities
N/A	Ethics and Professionalism
Scope of Internal Audit Activities/Responsibility	Managing the Internal Audit Function
N/A	Communication with the Audit Committee and Senior Management

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



# Key Difference #2: Retained Key Historical Provisions and Addressed Evolving Needs

<b>Retain Key Historical Elements</b>	<b>Address Evolving Needs</b>
<ul style="list-style-type: none"><li>• To maintain continuity, key elements from the previous charter were preserved:<ul style="list-style-type: none"><li>◦ For example, prohibits Internal Audit staff from being seconded to other areas, safeguarding audit objectivity. This was approved by HR and the City's employment lawyer.</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Introduce new sections to address evolving needs:<ul style="list-style-type: none"><li>◦ Notably, administrative reporting responsibilities were explicitly defined based on feedback from the IIA Quality Assessor.</li></ul></li></ul>

# Key Difference #3: Incorporated CLT's Input

The proposed charter incorporated feedback from CLT at the June 13, 2024 CLT workshop, specifically:

1. **Internal Audit will not expand into operational roles** such as risk management and compliance.
2. **Internal Audit will *only* undertake advisory services at the request of City Council or the Chief Administrative Officer (CAO).**
  - a. Regarding this decision, the CLT proposed the following verbiage changes to the current wording outlining the provision of advisory services in the Internal Audit Charter:  
***“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 an External Quality Assessment (EQA).**

# Recap Key Differences Between Proposed and Existing Audit Charter

1

Structural changes: reorganized content with updated headers to better align with IIA's Public Sector Model Charter with an emphasis on the 2024 Standards and its five domains.

2

Carried over historical provisions specific to the City (e.g. no staff secondments) for consistency.

Introduced new sections to address evolving needs.

3

Implemented CLT's input from the June 13, 2024 workshop.

# Updated Audit Committee Terms of Reference

The “**Audit Committee Oversight**” section from IIA’s Model Charter was transferred to the *Audit Committee Terms of Reference*, eliminating duplication. Appendix 4 contains the updated Audit Committee Terms of Reference with changes tracked.

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.



# Appendices Provide Critical Insights and Detailed Analysis

These appendices contain comprehensive comparisons and chronologies that illustrate the evolution of these documents, including changes tracked for both the Terms of Reference document and the Audit Charter document; ensuring transparency and informed decision-making for all stakeholders.

Appendix	Title
2	Proposed New Audit Committee Terms of Reference and Internal Audit Charter
3	Proposed Internal Audit Charter Adapted from the Public Sector Model Charter with <b>Changes Tracked</b>
4	An Updated Audit Committee Terms of Reference with <b>Changes Tracked</b>
5	A <b>Chronology</b> of the Changes to the Audit Committee Terms of Reference and Internal Audit Charter from 2019 to Date

# Conclusion

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.

Internal Audit consulted with the City Solicitor and City Clerk in the process of updating the Terms of Reference and Charter By-law

# Actions Required



## **Audit Committee:**

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**



## **City Clerk and City Council:**

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.