

Date: 2022-05-09

Subject: **Update of Internal Audit Charter and Audit Committee Terms of Reference**

Contact: Richard Gervais, Acting Director, Internal Audit
Mikkel Marr, Director, Organizational Performance & Strategy

Report Number: CAO's Office-2022-513

Recommendations:

- 1) That the report titled: **Update of Internal Audit Charter and Audit Committee Terms of Reference**, to the Audit Committee Meeting of May 17, 2022 be received.
- 2) That the updated Internal Audit Charter Version 2022, as set out in Appendix 1 to this report, be approved.
- 3) That the updated Audit Committee Terms of Reference Version 2022, as set out in Appendix 3 to this report, be adopted.

Overview:

- This Report includes proposed changes to the Internal Audit Charter Version 2019 to clarify roles and responsibilities and recommends the adoption of an Internal Audit Charter as attached as Appendix 1 to this Report; and
- This Report also recommends revisions to Audit Committee Terms of Reference to align with the recommended Internal Audit Charter, as attached as Appendix 3 to this Report.

Background:

On May 5, 2021, Council reinstated the previous version of the Internal Audit Charter and Audit Committee Terms of Reference from March 2019 to ensure independence and objectivity of the internal audit function. In addition, Council provided direction to staff to provide comments with regard to clarification of roles and responsibilities.

Current Situation:

Internal Audit Charter update Version 2022

Based on the review of the Internal Audit Charter Version 2019, the audit charters of other municipalities and recommendations of The Institute of Internal Auditors (IIA), two areas were identified where additional language would provide greater clarity and alignment with the current organizational structure.

It is recommended the City adopt the Internal Audit Charter, attached as Appendix 1 to this report. The proposed amendments include the following:

Current (Version 2019)	Proposed changes (Version 2022)
To establish, maintain, and assure that the City's Internal Audit has sufficient authority to fulfill its duties, the Audit Committee will: <ul style="list-style-type: none">• Approve decisions regarding the appointment and removal of the CAE.	To establish, maintain, and assure that the City's Internal Audit has sufficient authority to fulfill its duties, the Audit Committee will: <ul style="list-style-type: none">• Participate in the selection of the Director, Internal Audit.• Actively participate in discussions about and approving decisions regarding removal of the Director, Internal Audit.
Director, Internal Audit is referred to as Chief Audit Executive (CAE)	Chief Audit Executive (CAE) removed and replaced with Director, Internal Audit

Audit Committee Terms of Reference Version 2022

The Terms of Reference outlines the objectives and responsibilities of the Audit Committee. The Terms of Reference Version 2022, attached as Appendix 3 to this report, has been amended to align with the proposed changes to the Internal Audit Charter as noted above.

Corporate Implications:

Financial Implications: nil

Other Implications: nil

Term of Council Priorities:

This report achieves the term of Council priority of a Well-Run City by ensuring accountable and transparent government through clear the roles and responsibilities.

Conclusion:

The Office of Internal Audit performs its work independently and objectively. Enhancements to the Internal Audit Charter and Audit Committee Terms of Reference will ensure that Internal Audit continues to provide independent, objective assurance and consulting services designed to add value and improve the operations of the City.

Authored by:

Emily Sung, Sr Advisor, Organizational
Performance & Strategy

Reviewed by:

Mikkel Marr, Director, Organizational
Performance & Strategy

Approved by:

Richard Gervais, Director, Internal Audit
(Interim)

Submitted by:

Paul Morrison, Chief Administrative Office
(Interim)

Attachments:

Appendix 1: Internal Audit Charter Version 2022 – Clean

Appendix 2: Internal Audit Charter Version 2022 – Marked

Appendix 3: Audit Committee Terms of Reference 2022 – Clean



Corporation of the City of Brampton
The Office of Internal Audit

INTERNAL AUDIT CHARTER

Purpose and Mission

The purpose of the City of Brampton's ("City") Office of Internal Audit ("Internal Audit") is to provide independent, objective assurance and consulting services designed to add value and improve the operations of the City. The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

Definitions

Audit Committee:	A Committee of Council. The Committee was established to enable members of Council to further enhance oversight capabilities and stewardship responsibilities. Roles and Responsibilities are further defined in the Audit Committee Terms of Reference.
City Related Boards:	Includes Brampton Heritage Board and Brampton Library.
Consulting Services	Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve the City's governance, risk management, and control processes without the Director, Internal Audit and/or the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.
Council:	Municipal Council of the City of Brampton and includes the Mayor and Councillors.
Employee:	An individual employed by the City, including those employed on contract and volunteers, but does not include those retained by the City on a professional services agreement.
Engagement:	A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may

include multiple tasks or activities designed to accomplish a specific set of related objectives. An engagement includes financial, operational, compliance, follow up, information systems audits, other special audits, or consulting services.

Internal Audit Work Plan: The plan approved by Council listing all engagements to be performed by Internal Audit.

Standards for the Professional Practice of Internal Audit

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' ("the IIA") International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of internal audit activity's performance. The Director, Internal Audit will report periodically to the Audit Committee regarding Internal Audit's conformance to the Code of Ethics and the *Standards*. In addition, Internal Audit will adhere to and ensure conformance to the guidelines and procedures of ISACA for any engagements involving information systems.

Internal Audit will adhere to the City's relevant policies and procedures.

Authority

The Director, Internal Audit will report functionally to the Audit Committee and administratively (i.e. day-to-day operations) to the Chief Administrative Officer ("CAO"). To establish, maintain, and assure that the City's Internal Audit has sufficient authority to fulfill its duties, the Audit Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Work Plan.
- Approve Internal Audit's budget and resource plan.
- Receive communications from the Director, Internal Audit on Internal Audit's performance relative to its plan and other matters.
- Participate in the selection of the Director, Internal Audit.
- Actively participate in discussions about and approving decisions regarding the removal of the Director, Internal Audit.
- Review and approve, together with the CAO, the performance of the Director, Internal Audit.
- Approve decisions relating to the remuneration of the Director, Internal Audit.
- Make appropriate inquiries of management and the Director, Internal Audit to determine whether there is inappropriate scope or resource limitations.

The Director, Internal Audit will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including private meetings without management present.

The Audit Committee authorizes Internal Audit to:

- Have full, free, and unrestricted access to all functions, records, properties, and personnel necessary to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information, and applicable law.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the City, as well as other specialized services from within or outside the City, in order to complete the engagement.
- Conduct any engagement of all City departments and special interest groups, 3rd parties (via right to audit clauses where applicable) and City Related Boards.

It is the duty of any employee of the City or City Related Board having control of records to permit the Director, Internal Audit or his/her designate access and examination when requested subject to applicable law. It is also the duty of any employee of the City or City related Board to fully co-operate with and make full disclosure of all pertinent information to the Director, Internal Audit or his/her authorized designate.

Independence and Objectivity

The Director, Internal Audit will ensure that Internal Audit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Director, Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an impartial, unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the City or City Related Boards.

- Initiating or approving transactions external to Internal Audit.
- Directing the activities of any City employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

The Director, Internal Audit will have no direct operational responsibility or authority over any operational activity for the City or City Related Boards. The Director, Internal Audit is not authorized to perform any operational duties for the City or City Related Boards.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.

The Director, Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of Internal Audit.

The Director, Internal Audit will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee on the adequacy and effectiveness of governance, risk management, and control processes for the City. Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of the City's strategic objectives are appropriately identified and managed.
- The actions of the City's officers, directors, employees, and contractors are in compliance with the City's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the City.

- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Director, Internal Audit will report periodically to the Audit Committee regarding:

- The Internal Audit Charter.
- The independence of the Internal Audit activity.
- The Internal Audit Work Plan and progress against the plan.
- Internal Audit resource requirements.
- Results of Internal Audit activities, including significant risk exposures and control issues.
- Conformance with the IIA Code of Ethics and the *Standards*, and any action plans that address any significant conformance issues.
- Management's response to risk that, in the Director, Internal Audit's judgement, may be unacceptable to the City.

The Director, Internal Audit shares information, coordinates activities, and considers relying on the work of other internal and external assurance and consulting service providers as needed to ensure proper coverage and minimize duplication of efforts. Internal Audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided Internal Audit does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The Director, Internal Audit has the responsibility to:

- Submit, at least annually, to the Audit Committee, a risk-based Internal Audit Work Plan for review and approval. The Internal Audit Work Plan sets out the priorities for Internal Audit that: are reflective of the City's objectives, concerns and priorities; are integrated and coordinated with the corporate risk assessment and strategic planning process; and, considers input from senior management.
- Communicate to the Audit Committee the impact of resource limitations on the Internal Audit Work Plan.
- Review and adjust the Internal Audit Work Plan, as necessary, in response to changes in the City's business, risks, operations, programs, systems, and controls.
- Communicate to the Audit Committee any significant interim changes to the Internal Audit Work Plan.

- Ensure each engagement of the Internal Audit Work Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to the Audit Committee any corrective actions not effectively implemented.
- Manage and coordinate all fraud investigation activities within City Departments and Related Boards.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide Internal Audit.
- Ensure adherence to the City's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to the Audit Committee.
- Ensure conformance of Internal Audit with the *Standards*, with the following qualifications:
 - If Internal Audit is prohibited by law or regulation from conformance with certain parts of the *Standards*, the Director, Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by ISACA, the Director, Internal Audit will ensure that Internal Audit conforms with the *Standards*, even if Internal Audit also conforms with the more restrictive requirements of ISACA.

Quality Assurance and Improvement Program

Internal Audit will maintain a Quality Assurance and Improvement Program ("QAIP") that covers all aspects of Internal Audit. The program will include an evaluation of Internal Audit's conformance with the *Standards* and an evaluation of whether internal auditors apply the IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

The Director, Internal Audit will communicate to the Audit Committee on Internal Audit's QAIP, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the City.



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- Communicate to the Audit Committee the impact of resource limitations on the Internal Audit Work Plan.
- Review and adjust the Internal Audit Work Plan, as necessary, in response to changes in the City's business, risks, operations, programs, systems, and controls.
- Communicate to the Audit Committee any significant interim changes to the Internal Audit Work Plan.

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- Manage and coordinate all fraud investigation activities within City Departments and Related Boards.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter.
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The Director, Internal Audit will communicate to the Audit Committee on Internal Audit's QAIP, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the City.

AUDIT COMMITTEE

Terms of Reference

Composition:

- Minimum of five members of Council
- The Mayor, who is an *ex-officio* member
- Minimum of one to a maximum of three citizen members

Term of Office: Concurrent with the term of Council, ending November 30, 2022, or until successors are appointed

Established by: Council Resolution

Meetings: Quarterly, or as required by the Chair

Reports to: City Council

Supported by: City Clerk's Office

Qualifications:
Elected Officials:

- Where feasible, a background in finance, audit, or accounting would provide the Committee with additional expertise

Citizen Member(s):

- Lives and/or operates a business in Brampton
- Has a professional Accounting designation with a minimum of 10 years experience
- Demonstrates skill in strategy and innovation
- Proficient in accounting and auditing
- Displays exceptional verbal, written, listening, teamwork and collaboration skills

Objectives of the Audit Committee:

The objective of the Audit Committee is to enhance Council's understanding of financial and control reporting both internally (as provided by the City's Internal Audit Division) and statutorily (as provided by the City's Auditors). The Committee enables Council to fulfill its oversight and stewardship responsibilities. The Committee also provides a focal point for improved communication between Council, the Internal and Statutory Auditors, and Management. The Committee strengthens the impartial, objective and independent review of management practices through the internal and statutory audit functions. In particular, the Committee's objectives are to:

- Demonstrate a higher level of public accountability;
- Provide additional assurance to the public that City services are administered in an effective, efficient and economical manner;
- Ensure compliance with legislation for public reporting;
- Ensure compliance with Corporate policies and procedures;
- Ensure the safeguarding of City assets; and
- Ensure impartial, objective and independent review of processes for City operations

Responsibilities of the Audit Committee

The Audit Committee is responsible for:

Statutory Audit Function

Making recommendations to City Council regarding the following:

- The selection and dismissal of the City's statutory Auditor(s) in accordance with the requirements of Section 296 of the *Municipal Act, 2001*;
- The terms of engagement, fees and scope of the audit services provided;
- The review and approval of the annual Audited Financial Statements; and
- The review and receipt of reports.

Internal Audit Function

- Reviewing and approving the risk based internal audit work plan as recommended by the Director, Internal Audit;
- Reviewing and approving the Internal Audit Charter;
- Reviewing Internal Audit reports issued during the year;
- Reviewing adequacy of the management responses to audit concerns in relation to the risks and costs involved;
- Ensuring the Internal Audit recommendations are implemented by reviewing Internal Audit's follow up reports;
- Reviewing and approving the Office of Internal Audit's budget;
- Participate in the selection of the Director, Internal Audit.
- Actively participate in discussions about and approving decisions regarding the removal of the Director, Internal Audit.
- Reviewing the adequacy of the authority, responsibilities and functions of the City's Office of Internal Audit, including Internal Audit plans, budget, and the scope and results of internal audits and management's responses thereto;
- Ensuring all Internal Audit activities are free from interference and related implications;
- Reviewing with the Director, Internal Audit the performance of the Internal Audit function;

- Reviewing and approving, together with the CAO, the performance of the Director, Internal Audit; and
- Reviewing and approving decisions relating to the remuneration of the Director, Internal Audit.

Financial and Other Reporting

- Reviewing the annual Management Letter prepared by the City's statutorily appointed auditors and the related management responses.

General

- Reviewing the Audit Committee mandate periodically;
- Communicating and meeting independently with the Director, Internal Audit as appropriate; and
- Any other matters that could come within the scope of the auditors.