

INTERNAL AUDIT DEPARTMENT CHARTER

1. OBJECTIVE OF CHARTER

To provide a broad framework to guide the operations of the Internal Audit Department, including its overall mandate, services it will provide, and the professional standards and values it will adhere to in conducting internal audit activities.

2. DEFINITION OF INTERNAL AUDITING

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.

3. MANDATE

The Internal Audit Department was first established at the City of Guelph at the beginning of 2012 upon approval of funding within the City's 2012 budget. The mandate of the Department is to assist senior management meet their responsibilities to maintain proper systems of internal controls, identify and evaluate significant risk exposures and strengthen risk management throughout the City. This is accomplished by providing independent, objective assurance and consulting services designed to add value to and improve the City of Guelph's operations. Internal Audit uses a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4. SERVICES OFFERED

- Assurance services including the conduct of compliance, operational, financial, forensic, value for money and internal control audits;
- Business and risk assessment;
- Information sessions on Internal Audit services re Enterprise Risk Management; ongoing monitoring and reporting to senior management of the City's risk status and mitigation plans; and
- Special investigations.

5. AUTHORITY/EXPECTATIONS

The Internal Auditor is granted full, free and unrestricted access to any and all records, property and personnel relevant to any function under review. This access is provided under *The Protection of Privacy Act – Municipal Freedom of Information* (in particular, Sections 31(c) and 32(d)). All employees shall assist the Internal Auditor in fulfilling his/her objectives.

The Internal Auditor has the authority to conduct audits and reviews of all City departments, local boards including Downtown Guelph Business Association, the Elliott Community, Guelph Police Services and the Guelph Public Library, as well as other entities the City is related to or has an interest in.

To facilitate the conduct of internal audit activities, City of Guelph staff is expected to be:

- Co-operative and professional in their dealings with Internal Audit staff;
- Transparent in terms of providing accurate and complete information requested;

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- Open in their communication;
- Proactive in identifying problems and requesting assistance; and
- Responsive to information requests and address issues brought forward.

6. VALUES AND PRINCIPLES

In carrying out assurance and consulting activities, Internal Audit values and promotes:

- Integrity
- Professionalism
- Objectivity
- Transparency
- Ethical behaviour
- Accountability
- Fiscal Responsibility
- Continuous Improvement

7. PROFESSIONAL STANDARDS

In planning and conducting audit activities and reporting results, the Internal Auditor is required to:

- Comply with standards for the professional practice of Internal auditing as set out by the Institute of Internal Auditors
- Comply with standards and ethics of staff's own professional bodies of certification where applicable
- Comply with internal standards and procedures typically set out in an Internal Audit Manual and that adhere to guidelines provided by the Institute of Internal Auditors.

8. INDEPENDENCE

To provide organizational independence, the Internal Auditor reports functionally and administratively to the CAO and Executive Committee (the Team) and functionally to the Audit Committee. This relationship is further detailed in Section 9 below.

The Internal Auditor has unrestricted access to the Chair of the Audit Committee to whom all significant concerns relating to the adequacy and effectiveness of risk management, internal control and governance activities may be reported.

All Internal audit activities shall remain free of influence by any element of the organization (executive and senior management, Audit Committee and Council) to allow an independent and objective mental attitude necessary in rendering reports.

Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. As such, they shall not be involved in:

- Conducting service reviews, service rationalization reviews and making related recommendations;
- Developing or installing systems or procedures;
- Preparing records;
- Implementing recommendations made by Internal Audit; or
- Engaging in any other activity which would normally be audited.

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9. ACCOUNTABILITY AND REPORTING RELATIONSHIPS

The Internal Auditor in the discharge of his/her duties shall be accountable to the CAO and Executive Team (the Team) and to the Audit Committee of Council to:

- Report significant issues related to the adequacy and effectiveness of the City's processes for controlling its activities and managing its risks, including recommendations for improvements to those processes and managements' response for implementing corrective action.
- Annually provide information on the status of the annual audit plan, performance against benchmarks and the sufficiency of Internal Audit resources.

To provide for organizational independence, the Internal Auditor at the City of Guelph reports functionally to the Audit Committee of Council and both functionally and administratively to the Team. These separate reporting relationships help ensure independence, promote comprehensive audit objectivity and coverage, take operational constraints into consideration and assure adequate consideration and implementation of audit recommendations.

Functional reporting to the Audit Committee means that:

- the Internal Auditor has direct reporting access to the Chair of the Audit Committee;
- the Committee is responsible to review changes to the purpose, authority and responsibilities of the internal audit activity, formally defined in the Internal Audit Department Charter;
- the Committee is responsible to review the Audit Work plan and forward it to Council for approval;
- the Committee provides organizational independence for the Internal Auditor to ensure that the internal audit activity is free from management interference in determining the scope of internal auditing, performing work and communicating results; and
- The Committee receives audit reports and findings brought forward by the Internal Auditor and may direct questions to the Internal Auditor relating to the extent of work done and rationale for recommendations in a given report.

Functional reporting to the Team means that:

- the Internal Auditor has direct reporting access to the Team;
- the Internal Auditor discusses the draft Audit Work plan with the Team giving consideration to operational constraints and risks identified in finalizing the work plan;
- the Internal Auditor discusses any changes to the Audit Work plan brought about by unexpected circumstances and ad hoc requests with the Team on a timely basis;
- the Team receives all audit reports and findings brought forward by the Internal Auditor and may direct questions to the Internal Auditor relating to the extent of work done and rationale for recommendations in a given report.
- the Internal Auditor is provided with the necessary authority to perform assurance engagements at the City and expect issues identified to be resolved by City staff.

Administrative reporting to the Chief Administrative Officer means that:

- As an employee of the City of Guelph, the Internal Auditor's annual performance evaluation (PDP) is conducted by the CAO with input from the Executive Team and the Audit Committee;
- The Internal Audit Department's budget needs are discussed and the budget proposal approved by the CAO;

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- The Internal Auditor's requests for time off, or expenses submitted is approved by the CAO;
- As employment matters including the hiring, discipline and potential termination of employees reside with the CAO as per the CAO Bylaw, the CAO will make related decisions pertaining to the Internal Auditor after consulting with the Executive Team and the Chair of the Audit Committee.

10. INTERNAL AUDIT WORK PLAN

Internal Audit's primary responsibility is to assist senior management meet their responsibility to maintain proper systems of internal controls, identify and evaluate significant risk exposures and strengthen risk management throughout the City. This responsibility is considered when the Internal Auditor drafts the Audit Work plan.

Approximately 6-8 weeks prior to formulating the Work Plan, the Internal Auditor will send out separate e-mails to members of the Audit Committee and Councillors including the Mayor as well as to Senior Management at the City requesting work plan ideas. The projects are prioritized using Institute of Internal Auditor endorsed risk based methodology and the current year work plan is drafted along with projects planned for the next two years.

The Work plan will include the projects by title, a brief description of the approach/scope, information on the time requirement expected to complete the project and the year in which it will be undertaken.

A draft Work plan is brought forward to the Team to discuss timing and scope of projects selected and operational constraints that may impact timing. The Work Plan takes into consideration the availability of internal audit resources to complete the plan and allows for possible ad hoc requests that require completion on short notice.

The draft Work plan is also reviewed by the CAO to ensure it is achievable and reasonable in order to fulfill his/her administrative responsibilities in conducting the PDP of the Internal Auditor.

The Internal Audit Work plan is then presented to Audit Committee. If during their review a further project is suggested by motion, the Internal Auditor would take the request under advisement and report back to the Committee on what action if any can be taken giving consideration to the risk involved, comparison of risk to other projects on the plan and resource availability.

[Note: If a project cannot be accommodated within the Work plan, the Committee may refer the project to the CAO for resolution].

The Work plan is submitted to Council for their approval.

11. AUDIT REPORTS

The findings, conclusions and recommendations resulting from the work conducted by the Internal Auditor will be first discussed with the appropriate client personnel and their comments taken into consideration prior to issuing a draft report.

The draft report will be issued to the appropriate department head, Deputy CAO, and in matters that impact on the whole Corporation, the CAO, and staff comments incorporated as appropriate prior to the report to management being finalized.

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A final report will be issued to the Audit Committee itemizing findings, conclusions, recommendations and management response.

12. MANAGEMENT RESPONSES TO AUDIT REPORTS

- Management responses will be incorporated into Internal Audit reports whenever possible.
- If the management response is not included with the report, a response will be provided to Committee within 30 days of the issuance of the audit report.
- Management response should include a timetable for anticipated completion of the recommended action and an explanation for any corrective action that will not be implemented.
- If management responses and status reports are to be provided separately to Committee, the Internal Auditor should be informed and provided a copy of the report for review prior to the report being released in the public agenda.

13. FOLLOW UP AUDIT REPORTS

The Internal Auditor will be responsible for appropriate follow up on audit recommendations to determine the nature and extent of action taken by management on recommendations made and will report the results of this follow up.

14. PERFORMANCE MEASURES

- Percentage of Internal Audit Recommendations Implemented
- Client Satisfaction Rate*
- Number of Audits Completed

* The Department is in the process of formulating a client satisfaction survey to be sent out to clients serviced starting in the 3rd quarter of 2015. These surveys cover client assessments of the value added by services provided, client satisfaction with services and the degree to which client expectations were met by the audit services provided.

15. AMENDMENT OF CHARTER

The Internal Auditor will be responsible for regular review of the Internal Audit Charter. Amendments to the Charter are subject to the approval of the Team and the Audit Committee with recommendation to City Council.