

The Corporation of the City of London

Draft internal audit charter

I. Mandate

The mandate of the City's Internal Audit ("IA") function is to assist the Audit Committee and Management in meeting its role under the Municipal Act by serving as an independent and objective assurance and consulting body established to carry out activities that add value and improve City's operations and systems of internal controls. IA assists the City in accomplishing its objectives by bringing a systematic, collaborative and disciplined approach to evaluate and improve the effectiveness of the City's governance, risk management, internal control processes as well as assessing value for money and identifying value for money opportunities.

II. Role

IA will support the Audit Committee, Municipal Council, City Administration and management in meeting their legislated responsibilities, in improving the performance of the corporation in the programs and services it delivers and ensuring the accountability of local government to the taxpayers. The responsibilities of IA are established by the Audit Committee ("Committee") of the Corporation of the City of London as part of their oversight role. It is the intent of Internal Audit to work collaboratively with City Administration and management to meet these objectives.

III. Professional standards

IA will adhere to the Institute of Internal Auditors ("IIA") International Standards for the Professional Practice of Internal Auditing, and the IIA's Code of Ethics. In addition, IA will adhere to the City's relevant policies and procedures.

IV. Access to information

The IA is to have access during the City's regular business hours, to any and all of the City's paper and electronic records, physical properties, and personnel pertinent to carrying out an approved project. This includes access to all records, physical properties and employees of the City. The IA's access to records, physical properties and employees shall be subject to availability, compliance with all applicable legislation including without limitation the Municipal Freedom of Information and Protection of Privacy Act and the Personal Health Information Protection Act and compliance with the City's contractual obligations with third parties. The IA shall not have access to records or information that is subject to solicitor client privilege, litigation privilege or settlement privilege unless such privilege has been waived by City Council. The IA will also have free and unrestricted access to the Audit Committee.

To facilitate IA activities, the Audit Committee's expectation is that City employees and IA are:

- Co-operative and professional in dealings with each other;
- Transparent in terms of providing accurate and complete information with each other;
- Open in their communications with each other;
- Collaborative in identifying and communicating areas of risk; and
- Responsive to reasonable information requested.

Information, documents, and other relevant data given to IA during the course of an engagement will be handled in the same prudent and confidential manner as by the Corporation.

IA will have no direct operational responsibility or authority over any of the activities audited. IA does not in any way relieve other persons at the City of the responsibilities assigned to them. Accordingly, IA will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair IA's judgment and objectivity.

V. Confidentiality

Situations may arise where the subject matter of the IA's report, or part of a report, may be considered at a meeting of the Audit Committee that is closed to the public in accordance with section 239 of the Municipal Act, 2001. The IA may consult with the City Clerk, the City Manager and the appropriate Service Area Lead, who in turn may consult with the City Solicitor, as to whether the subject matter of the report or part thereof falls under any of the exceptions in section 239 of the Municipal Act, 2001.

Organizational reporting

IA will report functionally to the Audit Committee and administratively to the City Manager. This reporting structure enables IA to maintain independence and promote comprehensive audit objectivity. IA will communicate and interact directly with the Audit Committee and City Manager as appropriate.

VI. Independence and objectivity

IA will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. IA will make a balanced assessment of all the relevant circumstances and not be unduly influenced by self-interests or by others in forming judgments.

IA will confirm to the Audit Committee annually in writing the organizational independence of the IA activity.

VII. Responsibilities

The scope of IA encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management, and internal controls, assessing value-for-money and identifying opportunities for improving value for money in the activities undertaken by the City to achieve the City's stated goals and objectives. This includes:

- Preparation, presentation, and implementation annually of a risk-based audit plan;
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;
- Evaluating the systems established to support compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the City;
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- Evaluating the effectiveness and efficiency with which resources are employed;
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- Monitoring and evaluating governance processes;
- Monitoring and evaluating the effectiveness of the City's risk management processes;
- Performing consulting and advisory services related to governance, risk management and internal controls as appropriate for the City;
- Evaluating specific operations or processes at the request of the Audit Committee or management, as appropriate;

- Reporting significant risk exposures and internal control issues, including fraud risks, governance issues, and other matters as needed or requested by the Audit Committee and management;
- Investigating and reporting on known or suspected violations of policies and procedures, financial irregularities, fraud or misuse of City assets, both independently and/or in collaboration with the City Manager;
- Reporting periodically on IA's purpose, authority, responsibility, and performance relative to its plan;
- Issuing audit reports to the Audit Committee and management as applicable, summarizing the results of audit activities performed, including audit findings, related recommendations and agreed to management action plans;
- Performing and reporting on follow-up activities for high and medium priority observations to determine the status of recommendations contained in previously issued audit reports;
- Keeping the Audit Committee and City Manager informed of emerging trends and successful practices in internal auditing;
- Serving as a consulting resource for the review of policies and procedures, financial and administrative systems, organizational structures, enterprise risk management, and other related governance, risk and control activities, as requested;
- Maintaining professionalism with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter and to meet the minimum continuing professional education credit requirements; and
- Coordinating with the external auditors to provide information on a timely basis that may affect their external audit activities and to receive information from them that could affect the internal audit assessment of management internal controls.
- Coordinating with internal groups such as (Lean Six Sigma) to provide information on a timely basis that may affect their activities and to receive information from them that could affect the internal audit assessment of management internal controls.

VIII. Internal audit plan

IA will submit to the Audit Committee a four (4) year risk-based and annual IA plan updates for review and approval. The IA plan will be developed to operate within the approved budget and will consist of high level project descriptions and budget/resource requirements for the next fiscal year. Additionally, the IA plan for the following fiscal year will be presented for information and will be subject to the approval process as outlined above.

The annual IA plan update will be developed based on a prioritization of the audit universe and risks using a risk-based methodology, including input from Municipal Council, senior leadership (i.e. Senior Leadership Team) and the Audit Committee. IA will review and adjust the plan, as necessary, in response to changes in the City's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved annual IA plan will be communicated to the Audit Committee at their regularly scheduled meetings. Additionally, the Audit Committee Chair will be informed between the Audit Committee meetings, if more timely communication is deemed necessary.

IX. Reporting and monitoring

A written report will be prepared and issued by IA following the conclusion of each IA engagement and will be distributed to management, as appropriate, the City Manager and the Audit Committee Chair. IA results will also be communicated to the Audit Committee in a report prepared for each Audit Committee meeting. Should Value for Money (effectiveness and efficiency) be incorporated into the audit then the report will also address a cost/benefit analysis as appropriate.

Each IA report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken or a clear acceptance of the risks identified.

IA will be responsible for appropriate follow-up on high and medium priority project observations and recommendations. All high and medium priority observations will remain in an open status until validated by IA.

IA will periodically report to the Audit Committee on the IA's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee.

A copy of all final IA reports, or parts of reports, prepared for the Audit Committee will be provided to the City's external auditors. A copy of the final public IA reports, or parts of reports, may be published on the City's website.

Reports presented at meetings that are closed to the public under section 239 of the Municipal Act, 2001 will be distributed in accordance with the Corporation's established policies and procedures.

X. Charter review and approval

The IA Charter shall be reviewed by the Audit Committee for required updates and approval annually.