



INTERNAL AUDIT CHARTER

1.0 INTRODUCTION AND PURPOSE

This Charter establishes the purpose, authority and responsibilities conferred by the Audit Committee on Internal Audit, with respect to the carrying out of internal auditing activities within the City of London (“City”).

Internal auditing is an independent and objective assurance and consulting activity designed to add value and improve the City’s operations. It helps the City accomplish its strategy and objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The objectives of internal auditing are to assist City staff in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and by promoting effective control at a reasonable cost.

Internal Audit is responsible to provide independent assessments to the City Council of the Municipality, through the Audit Committee, as to whether risks are being adequately managed and to provide information to the Audit Committee that supports them in the execution of their responsibilities.

2.0 ROLE OF INTERNAL AUDIT

The responsibilities are defined in this charter, which is approved by the Audit Committee.

Internal Audit is independent of management and as such the Audit Committee has the authority to communicate directly with Internal Audit. Additionally, Internal Audit has direct access to the Audit Committee. Internal Audit reports administratively to the Deputy City Manager Finance Supports and functionally to the Audit Committee of the City.

3.0 AUTHORITY

In carrying out its duties and responsibilities, acting reasonably, Internal Audit is entitled to have full and unrestricted access to all City activities, records, property, personnel, and information, which it considers to be necessary to properly fulfill its function.

Internal Audit are authorized to:

- Have full and free access to the Audit Committee;
- Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives; and,
- Obtain the necessary assistance from personnel in units of the City where they perform audits, as well as other specialized services from within or outside the City.

Internal Audit are not authorized to:

- Perform any operational duties for the organization or its affiliates;
- Initiate or approve accounting transactions external to Internal Audit; and,
- Direct the activities of any City employee not employed by Internal Audit, except as follows:
 - To the extent that employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors, they may be directed by Internal Audit staff.

4.0 INDEPENDENCE

The independence of Internal Audit is largely determined by its reporting lines in the City. Internal Audit reports functionally to the Audit Committee (including required regular in camera meetings) and administratively to the Deputy City Manager Finance Supports.

In addition, all internal audit activities shall remain free of influence by any element in the City, including matters of audit selection, scope, procedures, frequency, timing, or report content, to permit maintenance of an independent and objective attitude necessary in providing reports.

Internal audit shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited. An internal audit does not in any way relieve other persons in the City of the responsibilities assigned to them.

5.0 RESPONSIBILITIES

Internal Audit is entrusted with the responsibility to appraise the policies, procedures, and management controls of the City to ensure that the activities are properly managed and to promote effective controls at reasonable cost. In discharging this responsibility, Internal Audit shall:

Performance

1. Ensure that internal audit resources are appropriate, adequate, and effectively deployed to achieve the approved plan. This would include maintaining an adequate complement of professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Where the necessary skills are not available internally within the audit team, these should be obtained externally through outsourcing/co-sourcing agreements, or through recruitment.

Annual Planning and Execution

2. Develop an annual internal audit plan and budget using an appropriate risk-based methodology, including any risks or control concerns identified by the Senior Leadership Team and the Audit Committee and submit that plan to the Audit Committee for review and approval as well as periodic updates.
3. Implement the annual internal audit plan, as approved, including as appropriate any special tasks or projects requested by the Senior Leadership Team and the Audit Committee.

Scope and Focus of Work

Examine and evaluate the adequacy, effectiveness and efficiency of risk management practices and methodologies to provide assurance that management is operating prudently and within the City's Risk Management Appetite.

4. Review systems and operations to assess the extent to which City objectives are achieved, and determine the adequacy and effectiveness of risk management, control, and governance systems. Assess the design and operation of systems of control to give reasonable assurance that the following objectives are achieved by management:
 - a) safeguarding assets and verify their existence;
 - b) complying with established policies, procedures, and instructions;
 - c) complying with legal and regulatory requirements and codes of conduct;
 - d) providing relevant, reliable, and accurate management and financial information; and,
 - e) detecting and deterring fraud.
5. Confirm the effective operation of the controls as designed through testing of transactions.
6. Assess the efficiency and effectiveness of internal controls and recommend improvements in procedures and systems.
7. Evaluate and assess significant merging/consolidating of functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.

Reporting

Internal audit will report periodically to the Audit Committee on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.

Reporting will include:

9. Significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the Audit Committee.
10. Periodic reports to the Audit Committee and management summarizing results of audit activities, including the follow up of previously reported issues.
11. Assessing progress against the approved internal audit plan, as well as any proposed changes to the plan for approval.
12. Bring to the attention of the Audit Committee any significant observations that warrant their immediate attention.
13. Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
14. Assist in the investigation of suspected fraudulent activities within the City and notify management and the Audit Committee of the results.
15. Monitor the overall effectiveness and progress of management in clearing outstanding audit observations and highlight items where timely action is lagging.

Coordination with Other Assurance Functions

Auditing and oversight assurance functions are critical for all organizations. External auditors also independently assess the effectiveness of selected areas of organizational operations. Given the impact that audit and oversight functions have on other parts of the organization it is important to ensure the necessary work is coordinated, well organized and that similar or redundant requests are avoided whenever practical. This helps optimize the performance of the City. In this regard, Internal Audit shall:

16. Consider the scope of work of the external auditors, as appropriate, for providing sufficient audit coverage to the organization at a reasonable overall cost. Wherever possible, share information and coordinate activities with the external auditors and providers of other assurance and consulting services to ensure proper coverage and minimize duplication of efforts; and,
17. Consider the degree of reliance that can be placed on other Governance structures within the City to reduce the amount of Internal Audit work required and thus reduce overall disruption to the City while ensuring that governance and risk assessments are appropriate, consistent, and communicated to the Senior Leadership Team and the Audit Committee, as needed.

Quality Assurance and Improvement Program

Internal audit will develop and maintain a quality assurance and improvement program

that covers all aspects of the internal audit activity and continuously monitors its effectiveness. Internal audit will adopt a process to monitor and assess the overall effectiveness of the quality program, which will include:

- Internal assessments including ongoing reviews of the performance of the internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal auditing practices and internal audit standards.

6.0 CONSULTING ACTIVITIES

In addition to its responsibilities to provide appropriate levels of internal audit coverage to the organization overall, Internal Audit can also add value in a consulting capacity. As such, it is responsible to carry out ad hoc assessments, inspections, investigations, examinations, or reviews requested by the Senior Leadership Team or by the Audit Committee.

Guidance on Accepting and Performing Consulting Activities

Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the City.

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the City to determine whether to continue with the engagement.

Internal auditors must exercise due professional care throughout a consulting engagement by considering the:

- Needs and expectations of the City, including the nature, timing, and communication of engagement results and the availability of skills to meet these expectations;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and,
- Cost of the consulting engagement in relation to potential benefits.

Internal Audit must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement, or the engagement conflicts with internal audit's assurance role.

7.0 SCOPE OF WORK

The scope of work of Internal Audit is to determine whether the City's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups to leverage their work as practical

- and minimize the “oversight burden” on operating departments;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees’ actions comply with policies, standards, procedures, and applicable laws and regulations;
- Resources are utilized efficiently and effectively, and adequately safeguarded;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the City’s control process; and,
- Significant legislative or regulatory issues impacting the City are recognized and addressed appropriately.

Opportunities for improving management control, profitability, and the City’s image may be identified during audits. They will be communicated appropriately to management and the Audit Committee.

8.0 ACCOUNTABILITY

Internal Audit, in the discharge of its duties, shall be directly accountable to the Audit Committee to:

- Meet with the Audit Committee at least quarterly and provide an assessment on the adequacy and effectiveness of the City’s key processes for controlling its activities and managing its risks in the areas set forth under the scope of work, as well as the basis for the assessment;
- Report significant issues related to the processes for controlling the activities of the City and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Periodically provide information on the status and results of the annual internal audit plan and the sufficiency of department resources; and,
- Co-ordinate with and provide assessment of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

9.0 STANDARDS OF AUDIT PRACTICE

The internal audit profession is covered by the International Professional Practices Framework of The Institute of Internal Auditors. This framework includes mandatory elements consisting of the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. Internal Audit will meet these mandatory requirements of the profession.

Internal Audit shall employ established and proven frameworks and practices that are appropriate for the organization and for the effective performance of Internal Audit responsibilities.

10.0 CODE OF CONDUCT

All internal auditors shall abide by the Institute of Internal Auditors' Code of Ethics.

11.0 AMENDMENT OF CHARTER

The Internal Audit Charter will be reviewed, updated, and reported to the Audit Committee for approval at least annually.