RECOMMENDATION

That Appendix “A” of Report AUD11005 respecting the Internal Audit Charter, be approved.

EXECUTIVE SUMMARY

The purpose, authority and responsibility of the internal audit activity is defined in a charter. The Audit, Finance and Administration Committee, acting in its Audit Committee capacity, should review and approve the charter periodically. The beginning of a new term of the Committee presents an opportune time for such a process to occur.

 Alternatives for Consideration – No approved charter. See Page 3.
**FINANCIAL / STAFFING / LEGAL IMPLICATIONS** (for Recommendation(s) only)

- **Financial:** None.
- **Staffing:** None.
- **Legal:** None.

**HISTORICAL BACKGROUND** (Chronology of events)

An Internal Audit mandate was last reviewed and approved by the Audit and Administration Committee in 2007. An operational review of Internal Audit conducted in 2005 recommended that the Internal Audit Mandate be reviewed and taken for approval to Council at the commencement of each new term of Council.

**POLICY IMPLICATIONS**

None.

**RELEVANT CONSULTATION**

The audit charters or mandates of several municipalities (Toronto, Ottawa, Winnipeg, Windsor) were reviewed/requested. The Institute of Internal Auditors (IIA) standards highly recommend an Internal Audit charter.

**ANALYSIS / RATIONALE FOR RECOMMENDATION**

(include Performance Measurement/Benchmarking Data, if applicable)

Providing a formal, written document containing the charter of the internal audit activity is very important in managing the auditing function within the organization.

The purpose, authority and responsibility of the internal audit activity is defined in the charter. The charter establishes the internal audit activity’s position within the City structure, authorizes access to records, personnel and physical properties relevant to the performance of audits/reviews and investigations and defines the scope of internal audit work. The charter can be used by management and Council in evaluating the operations of the function. If a question should arise, the charter also provides a written record with Council approval about the role and responsibilities of the internal audit activity within the City.
The Audit, Finance and Administration Committee, acting in its Audit Committee capacity, should periodically assess whether the purpose, authority and responsibility as defined in the charter continues to be adequate to enable the internal audit activity to accomplish its objectives. Each new term of Committee and Council provides an opportunity to approve the charter.

**ALTERNATIVES FOR CONSIDERATION**
(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Having no approved internal audit charter is an alternative. However, it is not recommended as there is a need for internal audit activity that is defined and whose roles and responsibilities are authorized in a public document, namely a charter.

**CORPORATE STRATEGIC PLAN** (Linkage to Desired End Results)


**Skilled, Innovative & Respectful Organization**

- An enabling work environment - respectful culture, well-being and safety, effective communication.

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD11005.
CITY OF HAMILTON
AUDIT SERVICES

INTERNAL AUDIT CHARTER

INTRODUCTION
Audit Services provides independent, objective assurance and consulting services designed to add value and improve the City of Hamilton’s operations. Audit Services brings a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

SCOPE
The scope of internal audit encompasses the examination and evaluation of the adequacy and effectiveness of the City’s governance, risk management process, system of internal control structure and the quality of performance in carrying out assigned responsibilities to achieve the organization’s goals and objectives. The City’s processes should function in a manner to help ensure:

- Risks are appropriately identified and managed.
- Significant financial, managerial and operating information is accurate, reliable and timely.
- Actions are in compliance with policies, standards, procedures and applicable laws and regulations.
- Resources are acquired economically, used efficiently and are adequately protected.
- Programs, plans and objectives are achieved.
- Significant legislative and regulatory issues impacting the City are recognized and addressed properly.
- Quality and continuous improvement are fostered in the organization’s control processes.

CONSULTING
In addition to audit engagements, staff of Audit Services may provide advisory or other consulting services, as appropriate, or at the request of Council or senior management. These types of services may include:

- Conducting special projects, reviews or investigations;
- Performing research;
- Providing training on audit related topics such as risk assessment and internal controls; or
- Providing counsel or advice (e.g. on the adequacy of draft procedures).

AUTHORITY
Internal Auditors are 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 Audit Services in fulfilling their objectives.

Audit Services has the authority to conduct audits and reviews of all City departments, agencies, boards and commissions, as well as other entities the City is related to or has an interest in.
INDEPENDENCE
Independence is an essential component to building public trust and preserving objectivity and integrity associated with the audit function.

To provide for the independence of the Audit Services division, its personnel report to the Director of Audit Services, who reports administratively to the City Manager and functionally to the Audit, Finance and Administration Committee of Council. Audit and review reports are sent directly to the Audit, Finance and Administration Committee for discussion and approval and then to Council. These reporting relationships help ensure independence, promote comprehensive audit objectivity and coverage and assure adequate consideration of audit recommendations.

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

Internal Auditors 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.

RESPONSIBILITIES
The Director of Audit Services and the staff of the Audit Services division have the responsibility to:

• Review operations within the City at appropriate intervals to determine whether planning, organizing, directing and controlling are in accordance with management instructions, policies and procedures and in a manner that is consistent with both City objectives and high standards of administrative practice.
• Determine the adequacy and effectiveness of the systems of internal accounting, financial and operating controls.
• Review the reliability, utility and integrity of financial information and the means used to identify, measure, classify and report such information.
• Review the established systems to ensure compliance with those policies, plans, procedures, laws and regulations which would have a significant impact on operations and reports and determine whether the organization is in compliance.
• Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
• Report to those members of management who should be informed or who should take corrective action, the results of audit examinations, the audit opinions formed, and the recommendations made.
• Evaluate any plans or actions taken to correct reported conditions and provide timely follow-up to ensure satisfactory disposition of audit findings in the manner and timeframe committed to by management in the original audit report. If the corrective action is considered unsatisfactory, hold further discussions to achieve acceptable disposition.
• Develop a flexible annual audit plan, including any risks or control concerns identified by management or other audits as well as appropriate special tasks or projects requested by management.
• Undertake investigations or refer issues to other appropriate parties as a result of disclosures under the Whistleblower By-law.
• Maintain a professional audit staff with sufficient knowledge, skills and experience.
AUDIT PLANNING
Each year, the Director of Audit Services shall prepare a work plan, setting out the proposed schedule of audits and other undertakings proposed for the coming year. In order to generate this plan, the following sources are considered:

- Prioritization of the audit universe using a risk-based methodology;
- Requests from Councillors, senior management and staff;
- Any audits planned for the past year but delayed or not completed; and
- Any conditions or concerns discovered or communicated throughout the past year.

The annual work plan is presented to the Audit, Finance and Administration Committee for approval.

REPORTING
A written report is prepared and issued by the Director of Audit Services following the conclusion of each audit. The report will include management’s responses and the corrective action plans for specific findings and recommendations. Management’s response will include a statement of general agreement or disagreement with the stated findings and recommendations as well as a timeframe for anticipated completion of action to be taken and an explanation for any recommendation not addressed.

Audit Services is responsible for appropriate follow up on audit findings and recommendations. All significant findings will remain open until the Director of Audit Services has determined management has appropriately taken action to resolve the finding.

All audit reports / follow up reports are presented to the Audit, Finance and Administration Committee.

PROFESSIONAL STANDARDS
Audit Services will be guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).