

# CITY OF SASKATOON COUNCIL POLICY

<b>NUMBER</b>
C02-032

<b>POLICY TITLE</b> <i>Internal Audit Charter</i>	<b>ADOPTED BY:</b> <i>City Council</i>	<b>EFFECTIVE DATE</b> <i>January 19, 2004</i>
		<b>UPDATED TO</b> <i>September 27, 2021</i>
<b>ORIGIN/AUTHORITY</b> <i>Clause 2, Report No. 1-2004 of the Audit Committee;            Clause 2, Report No. 1-2012 of the Audit Committee;            Item 8.2.3 of the Standing Policy Committee on            Finance – October 26, 2015, and Item 8.4.5 of the            Standing Policy Committee on Finance – September            27, 2021</i>	<b>CITY FILE NO.</b> <i>CK. 1600-1</i>	<b>PAGE NUMBER</b> <i>1 of 13</i>

## 1. PREFACE

- 1.1 This document constitutes the Internal Audit Charter of the City of Saskatoon and sets out the purpose, authority, and responsibility of the Office of the City Internal Auditor (Internal Auditor's Office). It authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope and nature of internal audit activities.
- 1.2 This document draws extensively on material published by the Institute of Internal Auditors (IIA) including, but not necessarily limited to, the IIA's International Standards for the Professional Practice of Internal Auditing (Standards), Core Principles, Code of Ethics, and related guidance.

## 2. POLICY OBJECTIVES

- 2.1 To establish the purpose, authority, and responsibility of the Internal Auditor's Office.

## 3. DEFINITIONS

- 3.1 Assurance Services – An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes. Examples include performance/value for money audits, internal controls audits (including Information Technology audits) and compliance audits.

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- 3.2 Code of Ethics – Institute of Internal Auditors Code of Ethics. Principles relevant to the profession and practice of internal auditing; rules of conduct that describe behaviour expected of internal auditors.
- 3.3 Compliance – The ability to reasonably ensure conformity and adherence to legislation, regulations, contracts, agreements, policies, plans, procedures, or other requirements.
- 3.4 Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed upon with the Standing Policy Committee on Finance or the City Manager, and which are intended to add value and improve the risk management, control and governance processes, and efficiency of operations. Examples include counsel, advice, facilitation, process design, and training.
- 3.5 Core Principles – Institute of Internal Auditors Core Principles for the Professional Practice of Internal Auditing. Principles that articulate internal audit effectiveness in achieving its mission.
- 3.6 External Auditor – An external individual or firm that performs audit procedures in order to issue an opinion on whether the financial statements fairly present the financial position of the organization in accordance with the relevant accounting standards.
- 3.7 Fraud – Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by individuals and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.
- 3.8 Governance – The combination of processes and structures implemented by City Council and its Committees, to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

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- 3.9 IIA Standards – Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. A set of principles-based, mandatory requirements consisting of statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- 3.10 Internal Auditing – An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It assists an organization to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of an organization’s governance, risk management and control processes.
- 3.11 Risk – The chance of something happening that could have an effect on the achievement of objectives. Risk is measured in terms of likelihood and impact.
- 3.12 Whistleblower Program – A program managed by the Internal Auditor’s Office to receive and investigate concerns of wrongdoing.
- 3.13 Wrongdoing – Illegal, harmful, or inappropriate conduct including, but not limited to:
- a) Crime or suspected criminal activity, including theft, fraud, and embezzlement;
  - b) Breach of Code of Conduct or any other City Council or Administrative Policies;
  - c) The wrongful or unauthorized acquisition, use, appropriation, or disposal of City assets, including cash, information, data, records, materials, labour, or equipment;
  - d) The violation of public trust or duty;
  - e) The misuse of position, authority or gross mismanagement of City funds or City assets for personal gain;

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- f) Failure to follow any civic policies regarding monetary transactions, cash handling, use of signing authority, competitive bidding, purchasing, or procurement;
- g) Any claim for reimbursement of expenses not incurred for the exclusive benefit of the City; and
- h) Knowingly directing or counseling a person to commit wrongdoing.

## 4. POLICY STATEMENT

- 4.1 City Council has established an Internal Audit Office to provide assurance and consulting services designed to add value and improve the City's operations.
- 4.2 The mission of the Internal Auditor's Office is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight to City Council and the Administration.

## 5. POLICY REQUIREMENTS

### 5.1 Standards

- a) The Internal Auditor's Office will adhere to the relevant provisions of IIA Standards, Code of Ethics, and legislative requirements as applicable.

### 5.2 Independence and Objectivity

- a) To provide for the independence of the internal audit activity and to ensure that audit results receive adequate consideration, the City Internal Auditor will report to and be accountable to City Council through the Standing Policy Committee on Finance.
- b) The Internal Audit activity will be free from interference by any element at the City of Saskatoon that may prevent the City Internal Auditor from carrying out its responsibilities on matters of audit selection, in determining the scope of an individual audit,

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performing work, timing of the audit, and communicating results. The City Internal Auditor will consult with the Administration and the Standing Policy Committee on Finance for input into the objectives and scope of each audit.

- c) Internal Audit will have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop, or implement policies or procedures, install systems, prepare records, approve transactions external to Internal Audit or engage in any other activity that may impair the Internal Auditors' judgment.
- d) Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- e) In known circumstances that will or may impair the objectivity and independence of the Internal Auditor's Office, the City Internal Auditor will inform the Standing Policy Committee on Finance, and appropriate actions will be undertaken to preserve Internal Audit's objectivity and independence.

## 5.3 Authority

- a) The Internal Auditor's Office will have authority to audit all aspects of the City's operations, including governance processes, departments, programs, business processes, systems, activities, policies, procedures, etc.

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- b) The Internal Auditor's Office will have unrestricted and timely access to all records, personnel, and physical property relevant to the performance of each audit, subject to accountability for confidentiality and safeguarding of records and information.
- c) The City Internal Auditor will work collaboratively with City Administration to obtain the necessary assistance of personnel, as well as other specialized services from within or outside of the City of Saskatoon, provided the expenditures are supported by the Internal Auditor's Office budget approved by the Standing Policy Committee on Finance.

#### 5.4 Communications with and Access to the City Internal Auditor

- a) The City Internal Auditor will attend Standing Policy Committee on Finance meetings to provide an update on the internal audit activity, including in camera meetings without management present, as requested by the Chair of the Standing Policy Committee on Finance.
- b) The Chair of the Standing Policy Committee on Finance will consult and/or meet with the City Internal Auditor prior to any scheduled Standing Policy Committee on Finance meeting for the purpose of discussing any matter of interest, including review of proposed agenda and materials.
- c) Individual members of City Council will have unrestricted authority to meet at any time with the City Internal Auditor but will have no authority to direct the City Internal Auditor to undertake any audit work.
- d) Only the Standing Policy Committee on Finance will have authority to approve internal audits pursuant to this policy. Any requests by individual Councillors to engage internal audit services must be referred to the Standing Policy Committee on Finance for approval.

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## 5.5 Scope of Internal Audit Activities

- a) The scope of the Internal Auditor's Office encompasses, but is not necessarily limited to, independent assessments on the extent to which the City's risk management, control and governance processes, as designed and represented by the Administration, are adequate and operating effectively. These processes should be functioning in a manner to ensure:
- i) Risks are appropriately identified and are effectively managed;
  - ii) Significant financial, managerial and operating information, and the systems/means used to identify, measure, analyze, classify, and report such information, is accurate, reliable, timely, and secure;
  - iii) Established processes and systems enable, and actions demonstrate, compliance with policies, standards, procedures, and applicable laws and regulations;
  - iv) Resources and assets are acquired economically, used efficiently, and adequately protected/safeguarded;
  - v) The results of operations and programs are consistent with established plans, goals and objectives;
  - vi) Operations and programs are being carried out effectively and efficiently; and
  - vii) Quality and continuous improvement are fostered in the organization's control process.

## 5.6 Role of Internal Audit in Providing Consulting Services

- a) The Internal Auditor's Office will have authority to perform consulting services where such services do not represent a conflict of interest, in fact or appearance, or detract from the program's assurance services obligations.

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## 5.7 Role of Internal Audit in the Risk Management Process

- a) Risk management is a key responsibility of the Administration. This responsibility includes identifying, assessing, mitigating, and monitoring risks on a continuous basis.
- b) The Internal Auditor's Office will assist the City by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

## 5.8 Role of Internal Audit in Fraud Investigation

- a) The Administration is responsible for establishing and maintaining controls to discourage the perpetuation of fraud and limit the exposure if fraud does occur.
- b) The Internal Auditor's Office will assist in the deterrence of fraud by examining and evaluating the adequacy and effectiveness of the City's system of internal control, with due consideration to the extent of the potential exposure/risk in the various segments of the City's operations.
- c) The City Internal Auditor will manage the City's Whistleblower Program and will ensure that all complaints received related to the wrongdoing are investigated in a fair, confidential, and timely manner.

## 5.9 Types of Assurance Audits

- a) The types of assurance audits to be undertaken by the Internal Auditor's Office will include, but not necessarily be limited to:
  - i) Performance/Value for Money Audits – to evaluate performance in terms of the efficiency, effectiveness and economy of operations, activities or programs;
  - ii) Internal Control Audits – to determine if adequate systems, practices, and controls are in place to mitigate the risks, including conducting Information Technology audits;

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- iii) Compliance Audits – to assess compliance with relevant legislation, regulations, contracts, agreements, policies, plans, procedures or other requirements;
- iv) Fraud investigations – to investigate the circumstances surrounding the suspected incidents of fraud, misuse of assets or violations of policies in order to determine the extent of loss, assess gaps in controls and make recommendations for corrective actions; and
- v) Follow-up audits – to obtain regular status updates from the Administration on the implementation status of past audit recommendations and assess whether the actions taken by the Administration in response to past internal audit findings and recommendations are effective.

## 5.10 Internal Audit Plan

- a) A flexible annual Internal Audit Plan will be prepared, with input from the Administration and the Standing Policy Committee on Finance.
- b) The Internal Audit Plan will be based on an assessment of risks and will be updated on a continuous basis.
- c) The Internal Audit Plan will be regularly reviewed and adjusted in response to changes in the City's business, risks, operations, programs, systems, and controls.
- d) The Internal Audit Plan and any ongoing changes will be subject to Standing Policy Committee on Finance approval.

## 5.11 Coordination with External Parties

- a) On at least a semi-annual basis, the City Internal Auditor will meet with the City's External Auditor to coordinate activities for the purpose of ensuring proper audit coverage and minimizing duplication of efforts.

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- b) The City Internal Auditor will interact with other municipal internal audit functions to learn and share internal audit best practices.

## 5.12 Reporting Results of Internal Audits

- a) The City Internal Auditor will document the results of each assurance audit in a formal report. The report will include the analysis, findings, conclusions, and recommendations for improvement in relation to each approved audit objective. The report will be discussed with the Administration, incorporate or accompany management responses, action plans and target dates for implementation of recommendations, and be presented to the Standing Policy Committee on Finance.
- b) The determination of whether audit reports should be placed on the public or in camera agendas of the Standing Policy Committee on Finance will be made in accordance with the process as established in Bylaw No. 9170, The Procedures and Committees Bylaw, 2014, and *The Local Authority Freedom of Information and Protection of Privacy Act*.
- c) The City's External Auditor will have access to all audit reports after they have been presented to the Standing Policy Committee on Finance, subject to accountability for confidentiality and safeguarding of records and information.

## 5.13 Status Update Reports and Follow-up

- a) The Internal Auditor's Office will obtain regular updates from the Administration on the implementation status of the internal and external audit recommendations. The status update reports will be provided to the Standing Policy Committee on Finance on a periodic basis.
- b) Internal Audit will conduct follow-up audits to assess the implementation effectiveness of the internal and external audit recommendations. The audit recommendations will remain open until the City Auditor has determined that that Administration has taken appropriate actions to implement the recommendations.

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- c) Follow-up audits and reporting will be performed in accordance with the process approved by the Standing Policy Committee on Finance.

## 5.14 Consulting Legal Counsel and Labour Relations Expertise

- a) The City Internal Auditor will consult with the City Solicitor's Office before including results and issuing opinions in audit reports regarding legal or regulatory violations or other legal issues.
- b) The City Internal Auditor will consult with the City's Human Resources Division before including results and issuing opinions in audit reports that could have human resource and/or labour relations implications.

## 5.15 Accountability Reporting Requirements

- a) The Standing Policy Committee on Finance will be provided with periodic reports, at least on a quarterly basis, on performance and progress relative to the approved internal Audit Plan.
- b) The Internal Auditor shall disclose to the Standing Policy Committee on Finance, the nature and extent of all consulting engagements undertaken at the request of the City Manager.

## 5.16 Annual Report

The City Internal Auditor will submit an annual report to the Standing Committee Policy on Finance that will include:

- a) A summary of activities undertaken by the Internal Auditor's Office;
- b) An analysis of the trends that can be drawn from the audits, investigations and other activities undertaken; and
- c) A summary of achievements and any other matters that the City Auditor deems relevant.

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## 5.17 Periodic Assessment of the Charter

- a) The Internal Audit Charter will be periodically assessed, at least once every three years, as to whether the purpose, authority, and responsibility of the Internal Auditor's Office, as defined in the Charter, continues to be adequate to enable the Internal Auditor's Office to accomplish its objectives. The results of the assessments will be submitted to the Standing Policy Committee on Finance for approval.

## 5.18 Quality Assurance and Improvement Program

- a) The City Internal Auditor will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit activity. The program will include an evaluation of the Internal Audit activity's conformance with the definition of Internal Auditing, IIA Standards and Code of Ethics. The program also assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement.
- b) The City Internal Auditor will communicate to the Standing Policy Committee on Finance on the Internal Audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

## 6. RESPONSIBILITIES

- a) The City Internal Auditor is responsible for:
  - i) Carrying out the internal audit function as outlined in this Policy;
  - ii) Responding to all enquiries; and
  - iii) The Administration and update of this Policy.

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- b) The Standing Policy Committee on Finance is responsible for:
  - i) Carrying out its role as outlined in this Policy;
  - ii) Responding to enquiries about this Policy; and
  - iii) Recommending revisions to this Policy.
- c) City Council is responsible for approving revisions to this Policy.