

DATE: August 29, 2011

REPORT TITLE: **AUDIT COMMITTEE AND INTERNAL AUDIT CHARTER REVISIONS AND UPDATES**

FROM: Paul Wallis, CMA, CIA, CISA, Director, Internal Audit

RECOMMENDATION

That the proposed Audit Committee and Internal Audit Charter outlined in Appendix I, to the report of the Director, Internal Audit, dated August 29, 2011, titled Audit Committee and Internal Audit Charter Revisions and Updates be approved.

REPORT HIGHLIGHTS

- The Audit Committee and Internal Audit Charters were last updated in October 2009.
- The principle changes recommended for the Audit Committee Charter include:
 - more emphasis on risk management
 - an added clause covering the Audit Committee's responsibility to review that Regional management has supported a culture of ethical and legal behavior
 - an "interim changes" clause to cover a new appointment to the Audit Committee should a Committee member resign before the end of term
- The principle changes recommended for the Internal Audit Charter include:
 - increased "Scope of Work" to include responsibility to review the Region's risk management process and the effectiveness of values and ethics initiatives
 - Internal Audit's accountability to annually provide a "Corporate Risk Profile"
 - responsibility for Internal Audit to develop a business plan with objectives and performance measures
- Both Charter's also have a variety of word revisions to clarify aspects of the Charters.

DISCUSSION

1. Background

Audit Committee and Internal Audit Charters are an important component of organizational governance. An Audit Committee Charter defines the Committee's roles, responsibilities, authority and administrative requirements. The Internal Audit Charter establishes Internal Audit's position in the Region and defines overall purpose, authority and responsibility. The Audit Committee Charter and the Internal Audit Charter were last revised in October 2009.

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2. Changes and Comments

Audit Committee Charter

A summary of the more significant changes by section is highlighted below.

- Objective Section - The main change was to remove the word "adequate or adequacy" and replace with "effective or effectiveness". The Region should strive for effective risk management and control not just "adequate".
- Authority Section - All remaining references to Subcommittee were changed to Committee.
- Roles and Responsibilities - Major changes made to reflect the increased responsibility in risk management, ethics and compliance and responsibility to review a "Corporate Risk Profile"
- Audit Committee Terms of Reference Section - Changes to clarify the number of members (five) and to better define actions to be taken if a Committee member resigns before the end of term.
- Some statements or words that did not fit with the revisions were either removed or consolidated with other bullets in the revised document. In these cases, other public sector audit committee charters were referenced to make sure all information was current and relevant.

Internal Audit Charter

A summary of the more significant changes by section is highlighted below.

- Scope of Work Section - The most significant changes are the additions to Internal Audit's scope of work. The two key areas include an assessment of the Region's risk management process and an evaluation of the effectiveness of values and ethics.

A modern Internal Audit function is expected to have a more strategic focus. Reporting on past events is becoming less important with more emphasis being placed on proactive, more forward thinking advice and reporting. Risk management, ethics and values and governance are foundation controls that better serve management, audit committees, Council and the interests of the organization.

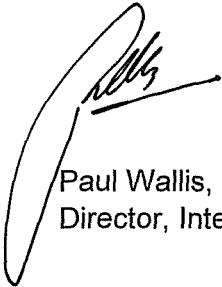
- Accountability Section - Internal Audit now has accountability to provide the Audit Committee with a Corporate Risk Profile. Work has begun on this and the first report is expected in 2012.
- Responsibility Section – Internal Audit is now responsible for developing and maintaining a business plan which includes objectives and performance measures. The measures will be used to gauge the effectiveness of the Internal Audit function.

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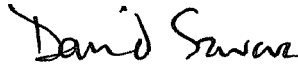
CONCLUSION

The Audit Committee and Internal Audit Charters represent better practice and support good public sector governance. The recommended revisions keep these documents up to date and reflect the important oversight and assurance roles and responsibilities of both the Audit Committee and Internal Audit function.



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Approved for Submission:



D. Szwarc, Chief Administrative Officer

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c. Legislative Services

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APPENDIX I



Audit Committee Charter

Revised September, 2011

1. OBJECTIVE

The objective of the Audit Committee is to assist Regional Council and associated Boards and Agencies in the discharge of their governance, accountability and controllership responsibilities by advising that risks are being appropriately addressed through strong governance, a risk/control and compliance framework, appropriate stewardship and an effective internal audit function.

This includes reviewing and advising on:

- The integrity, quality and transparency of the Region's financial, management and operational information.
- The effectiveness of the financial and management reporting processes.
- The effectiveness of risk management and control processes and practices.
- The performance of the internal audit function and assessing the effectiveness of the external audit function.
- Ethical business conduct and compliance with the Region of Peel's Code of Conduct.

2. AUTHORITY

The Audit Committee receives its authority to exercise its responsibilities under resolution from Regional Council. The Audit Committee acts as a forum for communication among Regional Council, senior management and the external/internal auditors. The Audit Committee within the scope of its roles and responsibilities is authorized to:

- Authorize investigations into any matters it deems necessary.
- Obtain any information it needs from internal/external audit and management.
- Request the attendance of any employee or external party at Audit Committee meetings.
- Discuss any matters with the Director, Internal Audit.

3. ROLES AND RESPONSIBILITIES

The responsibilities of the Audit Committee may be revised by council resolution. In each of its specific areas of responsibility, the Audit Committee, through internal audit or other means, has a responsibility to receive and evaluate information related to areas of risk or

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vulnerability within the Region of Peel and the agreed upon management actions to effect change in these areas.

Risk Management and Control Framework

Based on information provided by Internal Audit and other regional business functions:

- Review if management has a risk management framework and the associated procedures for effective identification and management of the Region's financial, operational and strategic risks.
- Review the impact of the risk management framework on the control environment.
- Review and evaluate policies and processes to manage significant risks or exposures and steps taken to monitor risks.
- Review and approve the Corporate Risk Profile.
- Review if management's approach to maintaining an effective control framework, including external parties such as contractors and advisors, is sound and effective
- Review that funds transferred to Region financed external organizations and agencies are accounted for and used in a manner consistent with Regional goals and objectives [Internal Audit does not have the authority to audit these external organizations unless approved by the applicable governing board. Internal Audit does have responsibility to provide assurance that such funds are consistently managed to the standards of care prescribed by the Region].
- Review processes to determine if the organization has in place relevant policies and practices and whether these are periodically reviewed and updated and that they are complied with.
- Review information and reports that assess key themes and issues affecting risk and control from an organizational (Region) perspective.
- Review that management has taken steps to embed a culture which is committed to ethical and legal behaviour including compliance with laws, legislation and regulation.
- Review administration of and compliance with the Region's Code of Conduct including the processes for educating and communicating the Code to regional personnel.
- Review follow-up procedures on management action plans. Review explanations for those not yet implemented.

AUDIT COMMITTEE AND INTERNAL AUDIT CHARTER REVISIONS AND UPDATES**Internal Audit Activities**

- Approve the risk based internal audit plan recommended by the Director of Internal Audit.
- Receive audit or engagement reports identifying the key issues and the actions taken to address the issues.
- Review the status of management action plans.
- Review and approve the Internal Audit Charter and discuss if the appropriate authority, access and reporting arrangements are in place.
- Review audit plan status at least twice annually.
- Review results of the annual client satisfaction survey.
- In conjunction with the Director, Internal Audit, review internal audit's compliance with the Standards for the Professional Practice of Internal Auditing, including adequate quality assurance practices, appropriate staffing and effective operational management.
- Review the adequacy of resources to allow internal audit to carry out its responsibilities, including completion of the annual and longer term audit plans.
- Ensure clear and independent communication and reporting lines exist between the Director, Internal Audit and the Audit Committee.

External Audit Activities

- Recommend for Council approval the appointment of the external auditor for the Region of Peel and Peel Housing Corporation for a five year term.
- Recommend for Council approval the terms of engagement and fees of the audit external auditor.
- Recommend for Council approval the scope and approach of the annual external audit plan.
- Review the independence and qualifications of the external auditor.
- Review matters brought forward that in the external auditor's professional judgment may have a bearing on independence.
- Review the annual management letters by the external auditors and make recommendations to Regional Council and Peel Housing Corporation Board where necessary.
- Consider the external auditor's judgments about the quality and appropriateness of the Region's accounting principles as applied in the Region of Peel and Peel Housing Corporation financial reporting.

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- Monitor the coordination of the internal and external audit functions.

Financial and Management Reporting and Financial Statements

- Provide assurance to Regional Council and Peel Housing Corporation Board that information reported by management at the Region of Peel and Peel Housing Corporation reasonably portrays the financial condition, results of operations, plans and long-term commitments of those organizations.
- Review Region of Peel and Peel Housing Corporation financial statements and recommend approval by Regional Council and the Peel Housing Corporation Board (for example Annual Financial Statements).
- Review management reports which may accompany published financial statements.
- Review with external auditors and management the results of the audit and, if necessary, any qualification to the audit opinion.

4. AUDIT COMMITTEE TERMS OF REFERENCE**Reporting Function**

The Audit Committee will serve in an advisory capacity by making recommendations to Regional Council and Peel Housing Corporation Board. The Audit Committee will be required to report after each meeting to a subsequent meeting of the Management Section of Regional Council and the Peel Housing Corporation Board, as required.

Membership

The Audit Committee shall be comprised of five members; the Regional Chair (ex-officio), the Chair and Vice-Chair of the Management Section of Regional Council and must include at least one member from each area municipality. Concurrent representation from the Peel Housing Corporation Board shall be included in the membership.

Term of Appointment

The term of appointment of Audit Committee members will be for a period of 24 months, which coincides with the term of appointment for the Chair and Vice Chair of the Management Section of Regional Council. Regional Council will ensure each area municipality and the Peel Housing Corporation Board is represented by appointing an additional member(s) not represented by the Chair and Vice-Chair of the Management Section of Regional Council.

Election of Chair and Vice-Chair

The Audit Committee will elect from its members a Chair and Vice-Chair, and this election will be held at the Audit Committee's first meeting of a new term. There are two

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24 month terms during the 48 month municipal election term, therefore the election of Chair and Vice-Chair will be held twice.

Quorum

Quorum shall compromise a majority of the Audit Committee members.

Interim Changes

Should a member of the of Committee resign before the Term of Appointment expires, a replacement will be appointed by Regional Council to serve the remaining time of the Term.

Meetings

The Audit Committee will be required to meet at least three times each year, and at other times as needed, or at the call of the Audit Committee Chair. The agendas for the meetings will be distributed to the Regional Chair, all Regional Councilors, all members of Peel Housing Corporation Board, executive management, both the internal and external auditors, and internal and external subscribers as appropriate.

The Audit Committees meetings will be open meetings, and all reports and minutes will be available to the public. For the consideration of confidential matters, the Audit Committee has the authority under Resolution 2000-426 to go In Camera.

Audit Committee Resources

Audit Committee resources will be provided by the Chief Financial Officer and Commissioner of Corporate Services, the Regional Clerk, the Director of Internal Audit and external auditors. A designate of the Regional Clerk will serve as the secretary to the Audit Committee and provide administrative support.

Review of Audit Committee Charter

The Charter will be reviewed every year. Suggested changes will be reported to the Audit Committee for their consideration and Council approval.

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Internal Audit Charter

Revised September, 2011

1. PURPOSE & DEFINITION

Internal Audit assists the Region of Peel in accomplishing its business objectives by providing a systematic and disciplined approach to help improve the effectiveness of risk management, control and governance processes.

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve operations.

2. PRINCIPLES**Independence and Objectivity**

Internal Auditors must be independent of the functions they audit. Internal Auditors must be objective in performing their work. Internal Audit can provide advice by assisting in identifying risk and working with the organization to improve control and governance but is not responsible for implementing risk mitigation strategies or performing control functions.

Risk Based and Client Focused

Internal Auditors are involved in all significant business processes, functions and organizational units and work with all levels of management to identify and assess risk, control and governance issues.

Management Supported

Management will recommend to Council the resources necessary to support the internal audit function based on an overall assessment of need and risk.

Continuous Improvement

Internal Audit, through its own practices and actions, will promote and contribute to continuous improvement in the Region.

Partnerships

Internal Audit will work with organizational units in partnership to promote a strong governance, accountability and risk management environment in the Region of Peel. Consulting and advisory services will support proactive partnership.

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AUDIT COMMITTEE AND INTERNAL AUDIT CHARTER REVISIONS AND UPDATES**3. SCOPE OF WORK**

All activities of the Region of Peel and Peel Housing Corporation and their boards, authorities and agencies may be subject to audit by Internal Audit (The Region).

This includes:

- Evaluating the risk management process within the Region to determine that risks are aligned with risk appetite or tolerances and that relevant risk management information is captured and communicated throughout the organization.
- Determining if appropriate values and ethics are promoted and communicated within the Region.
- Determining if risks are identified and properly managed.
- Evaluating the effectiveness and efficiency of key controls in mitigating risk.
- Evaluating the potential for the occurrence of fraud and how the organization manages fraud risk.
- Reviewing and appraising the reliability and integrity of financial, managerial and operating data.
- Determining if resources are used efficiently and are adequately protected.
- Ascertaining compliance with legislation and policies and procedures.
- Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with established objectives.
- Ensuring quality and continuous improvement is promoted in the Region's risk, control and governance processes.

4. ACCOUNTABILITY

The Director of Internal Audit will be accountable to management and the Audit Committee to:

- Provide annually, a Corporate Risk Profile that will document the critical risks facing the Region and the mitigation strategies included to manage them.
- Provide, at least annually based on the scope of work performed, an assessment of the effectiveness of the Region's risk management practices. Thematic based reporting will support the assessment.
- Report significant issues related to the processes for controlling the Region's overall business activities, including potential process improvements and provide information through active and constructive resolution.

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- Provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate and partner with other internal client advisors and external organizations providing stewardship, risk management and advice services.
- Confirm, at least annually, the organizational independence of the internal audit activity.

5. REPORTING RELATIONSHIPS

- The Director of Internal Audit reports to the Chief Financial Officer (CFO) and Commissioner of Corporate Services for administrative purposes and also has full and independent access to the Executive Management Team and the Audit Committee.
- The Director of Internal Audit will report to the Audit Committee at least three times a year and at other times as needed. The Charter for the Audit Committee is documented separately.

6. AUTHORITY

The Director and staff of Internal Audit are authorized to:

- Have complete independence and not be restricted in the scope, performance or communication of its work. Management and the Audit Committee may provide general direction as to the scope of work and the activities to be audited, and may request Internal Audit to carry out special reviews or audits.
- Have unrestricted access to all records, physical properties, functions and personnel necessary to effectively discharge its responsibilities.
- Allocate resources, determine scope of work and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel within the Region of Peel where audits are performed, as well as other specialized services from within or outside the organization.

The Director and staff of Internal Audit are not authorized to:

- Perform any operational duties for the Region.
- Initiate or approve accounting transactions external to the Internal Audit Division.
- Direct the activities of any employee in the Region not assigned to work in the Internal Audit Division.

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In case of a Regional emergency, to the extent that redeployment of staff may be necessary to support critical functions, internal audit staff may be required to perform otherwise non-audit related duties.

7. RESPONSIBILITY

The Director and staff of Internal Audit have responsibility to:

- Develop a Risk Based Internal Audit Plan using an appropriate risk-based methodology, including any risks, control or governance concerns identified by management, and update that plan annually. The plan must be submitted to the Executive Management Team for review and the Audit Committee for approval.
- Implement the Internal Audit Risk Based Work Plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee.
- Perform advisory and assurance services to assist management in meeting its objectives, Examples include facilitation (risk workshops), risk and control training and other advisory services.
- Coordinate Audit Committee operations. It is important that the Audit Committee operate in an efficient and effective fashion.
- Issue reports to management and the Audit Committee summarizing the results of audit activities.
- Keep management and the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Maintain a quality assurance program that includes both ongoing and periodic internal quality assessments and undergo an external quality assessment a minimum of once every five years.
- Review the Internal Audit Charter at least annually to ensure that it is up to date and effective.
- Develop and maintain an audit team with versatile skill sets in order to respond effectively to Audit Committee, Council and senior management needs.
- Develop an internal audit business plan that includes strategic objectives, outcomes and performance measures and performance results to management and the Audit Committee.
- Assist in the investigation of suspected fraudulent activities and notify management and the Audit Committee of the results.

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8. STANDARDS OF AUDIT PRACTICE

In all of its activities, Internal Audit will adhere to the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics adopted by the Institute of Internal Auditors, as well as the Region's Code of Conduct and the Internal Audit Procedure Manual.