

Proposed Amendments – Council Policy No. C02-032 – Internal Audit Charter

CITY OF SASKATOON COUNCIL POLICY

NUMBER
C02-032

POLICY TITLE <i>Internal Audit Charter</i>	ADOPTED BY: <i>City Council</i>	EFFECTIVE DATE <i>January 19, 2004</i>
		UPDATED TO <i>October 26, 2015</i>
ORIGIN/AUTHORITY <i>Clause 2, Report No. 1-2004 of the Audit Committee; Clause 2, Report No. 1-2012 of the Audit Committee; and Item 8.2.3 of the Standing Policy Committee on Finance – October 26, 2015.</i>	CITY FILE NO. <i>CK. 1600-1</i>	PAGE NUMBER <i>1 of 10</i>

1. PREFACE

1.1 ~~Section 1000 of the IIA Standards for the Professional Practice of Internal Auditing require that the purpose, authority and responsibility of the Internal Audit Function be formally defined in a Charter, consistent with the Standards, and approved by the governing body.~~

1.21 This **document constitutes the Internal Audit Charter of the City of Saskatoon and sets out the** formalizes the Internal Audit Function, defines the scope **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 responsibilities of the Internal Auditor, and provides the Internal Auditor with the necessary authority to fulfill his/her responsibilities **and nature of internal audit activities.**

1.32 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 (hereafter referred to as the IIA Standards), **Core Principles, Code of Ethics** and related **guidance** Practice Advisories.

2. POLICY OBJECTIVES

2.1 To **establish the** ensure **purpose, authority and responsibility of the independence and objectivity of the Internal Auditor's Office Audit Function.**

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~~2.2 To ensure the Internal Audit Function adheres to the Standards for the Professional Practice of Internal Auditing.~~

3. DEFINITIONS

3.1 Assurance Audit Services – An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes for ~~City Council~~. Examples of assurance audits are provided in section 5.8 of this policy **include performance/value for money audits, internal controls audits (including Information Technology audits) and compliance audits.**

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 behavior expected of internal auditors.

3.23 Compliance – The ability to reasonably ensure conformity and adherence to legislation, regulations, contracts, agreements, policies, plans, and procedures **or other requirements.**

3.34 Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed upon with ~~City Council~~, the Standing Policy Committee on Finance, or the City Manager, and which are intended to add value and improve the ~~City's operations~~ **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.

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- 3.47 Fraud – Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of 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.
- 3.58 Governance Processes – The **combination of procedures processes and structures implemented** utilized by City Council and its Committees, Boards, and Commissions to **inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.** provide oversight of risk and control processes administered by management.
- 3.69 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.**
- 3.710 Internal Auditing – **An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It assists** helps 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, and governance processes.**
- 3.811 Risk – The ~~uncertainty of an event occurring~~ **chance of something happening** that could have an ~~impact~~ **effect** on the achievement of objectives. Risk is measured in terms of ~~consequences and likelihood~~ **and impact.**
- 3.12 Whistleblower Program - **A program managed by the Internal Auditor’s Office to receive and investigate concerns of wrongdoing.**

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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;**
- 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 shall ~~has retain an Internal Auditor~~ **established an Internal Audit Office** independent of management, to provide internal assurance ~~audit~~ and consulting services designed to add value and improve the City's operations.

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- 4.2 The mission of the Internal Auditor's Office Audit Function is to help the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the efficiency and effectiveness of risk management, control, and governance processes **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** ~~The Internal Auditor will~~ shall adhere to the **relevant provisions of IIA Standards, *Standards for the Professional Practice of Internal Auditing*** and the Code of Ethics of the Institute of Internal Auditors **and legislative requirements as applicable.**

5.2 Reporting Relationship 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** ~~shall~~ report to and be accountable to City Council through the Standing Policy Committee on Finance of City Council.
- b) ~~Appointment and dismissal of the Internal Auditor shall be based on recommendations from the Standing Policy Committee on Finance and shall require the approval of a majority of City Council.~~
- 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, 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.**

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- 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~~ **Internal Auditor's Office will** ~~shall~~ have authority to audit all aspects of the City's operations, including governance processes, departments, programs, business processes, systems, ~~functions,~~ activities, policies, **procedures**, etc.
- 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.** ~~In accordance with IIA Standard 1110, the Internal Auditor shall be free from interference in determining the scope of internal auditing performing work, and communicating results. Subject to complying with the requirements of IIA Standard 1110, the Internal Auditor shall consult with management and the Standing Policy Committee on Finance for input into the lines of enquiry to be pursued in each audit.~~

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- 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.** ~~The Internal Auditor shall have unrestricted access to all records, personnel and physical property relevant to the performance of audits.~~

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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5.45 Scope of Internal Audit Activities

- a) ~~The Internal Auditor shall utilize a methodology that links internal audit practices to the City's risk management systems, so as to provide assurance to Council that risk management practices and processes are managing risk effectively. The~~ **scope of the Internal Auditor's Office encompasses, but is not necessarily limited to, independent assessments on** ~~Internal Auditor shall determine and report on the extent to which the City's network of risk management, control, and governance processes, as designed and represented by management and City Council~~ **the Administration, is are adequate and functioning operating effectively. These processes should be functioning** in a manner to ensure:
- i) ~~With respect to financial systems, that risks are appropriately identified and are effectively managed;~~
 - ii) ~~In accordance with an audit plan, that significant financial, managerial, and operating information, and the~~ **systems/means used to identify, measure, analyze, classify and report such information, is accurate, reliable, and timely and secure;**
 - iii) ~~In accordance with an audit plan, due diligence is exercised in the development and implementation of computer systems and system changes;~~
 - iviii) ~~With respect to financial systems~~ **established processes and systems enable, and employees' actions demonstrate, are in compliance with policies, standards, procedures and applicable laws and regulations;**
 - iv) ~~In accordance with an audit plan, that resources~~ **and assets** are acquired economically, used efficiently, and adequately protected/**safeguarded;**
 - vi) **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**

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- vii) ~~With respect to financial systems, that quality and continuous improvement are fostered in the organization's control process.~~

5.56 Role of Internal Audit in Providing Consulting Services

- a) The Internal **Auditor's Office Auditor will** ~~shall~~ have authority to perform consulting services where such services do not represent a conflict of interest, **in fact or appearance**, or detract from the ~~Internal Auditor's~~ **program's** assurance services obligations.
- b) ~~The performance of consulting services by the Internal Auditor shall be governed by the IIA Standards.~~

5.67 Role of Internal Audit in the Risk Management Process

- a) Risk management is a key ~~management~~ **responsibility of the Administration**. This responsibility includes identifying, assessing, mitigating, and monitoring risks on a continuous basis.
- b) ~~Consistent with IIA Standard 2110, the~~ **The Internal Auditor Internal Auditor's Office will** ~~shall~~ assist the **City** organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

5.78 Role of Internal Audit in Fraud Investigations

- a) ~~Management~~ **The Administration** is responsible for establishing and maintaining controls to discourage the perpetuation of fraud and limit the exposure if fraud does occur.
- c) The Internal **Auditor's Office Auditor will** ~~is~~ responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy and ~~the~~ 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.

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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.**

~~e) The Internal Auditor shall be notified of all fraud allegations or potential conflict of interest situations. The Internal Auditor may provide assistance in investigating and documenting the nature, extent, and effect of any allegations, ensuring sensitivity and confidentiality throughout the process.~~

5.89 Types of Assurance Audits

a) The types of assurance audits to be undertaken by the **Internal Auditor's Office** ~~Internal Auditor shall~~ **will** include, but not necessarily be limited to:

ivi) **Performance/Value for Money Audits – to evaluate performance in terms of** ~~assess~~ the efficiency, effectiveness and economy of operations, activities or programs;

iii) **Financial-Internal Control Audits – to determine if adequate systems, practices and controls are in place to mitigate the risks, safeguard the City's financial resources including conducting Information Technology audits;**

iii) **Compliance Audits – to assess compliance with relevant legislation, regulations, contracts, agreements, policies, plans, procedures or other requirements;**

iiiv) ~~Fraud investigations – to determine whether fraud has occurred, identify the perpetrator(s), identify the extent of the fraud, and determine the techniques used and cause of the fraud~~ **investigate the circumstances surrounding the suspected incidents of fraud, misuse of assets or violations of polices in order to determine the extent of loss, assess gaps in controls and make recommendations for corrective actions;**

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- iiiiv) 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 ~~management and City Council~~ **the Administration** in response to ~~significant past internal~~ **audit findings** observations and recommendations **are effective.**

5.910 Corporate Internal Audit Plan

- a) ~~The Internal Auditor shall establish a long-range~~ **A flexible annual Internal Audit Plan for assurance audits will be prepared, with** ~~The input of from management~~ **the Administration** and the Standing Policy Committee on Finance ~~shall be considered in this process.~~
- b) ~~The long-range plan~~ **Internal Audit Plan will** shall be based on an **assessment of risks** ~~assessment and will~~ shall be updated at least annually **on a continuous basis.** ~~The actual cycle for specific departments, programs, or functions appearing in the long-range plan shall be based on weightings assigned to various risk factors including, but not necessarily limited to, materiality (e.g. the size of the budget), staff levels, type of organization (e.g. Board vs. department), findings from previous audit, extent of public exposure, funding source, relevant legislative requirements, and complexity/diversity.~~
- 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.**
- ed) ~~The~~ **Internal Audit Plan and any ongoing changes will** shall be subject to **Standing Policy Committee on Finance** ~~City Council~~ approval.

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5.4011 Coordination of Internal Audit with External Parties

- a) ~~The Internal Auditor shall meet with the City's External Auditor~~ On at least a semi-annual basis, **the City Internal Auditor will meet with the City's External Auditor** to share information and coordinate activities for the purpose of ensuring proper audit coverage and minimizing duplication of efforts.
- b) **The City Internal Auditor will interact with other municipal internal audit functions to learn and share internal audit best practices.**

5.4112 Reporting Results of Internal Audits

- a) ~~The Internal Auditor~~ **The City Internal Auditor will** shall 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~~ shall be discussed with management ~~the Administration,~~ shall incorporate **or accompany** management responses, **action plans** and target dates for implementation of recommendations, and shall be ~~tabled with and presented to the Standing Policy Committee on Finance.~~
- b) **The determination of whether audit reports should be placed on the public or in camera agenda 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.** ~~All information systems and cash handling audit reports shall remain in camera, shall not be tabled with City Council, and shall not be made available to the public.~~
- c) The City's External Auditor ~~will~~ shall have access to all information systems and cash handling audit reports after they have been ~~tabled with, presented to, and cleared through~~ the Standing Policy Committee on Finance, **subject to accountability for confidentiality and safeguarding of records and information.** ~~Distribution of information systems and cash handling audit reports~~

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~~to any and all other external parties shall be subject to the prior approval of the Standing Policy Committee on Finance.~~

- ~~d) Notwithstanding (d) above, the Internal Auditor shall have authority to release copies of any information systems or cash handling audit report to other municipal Internal Auditors on the understanding that recipients respect the confidentiality of these documents. The Internal Auditor shall inform the Standing Policy Committee on Finance of any such requests that have been received and reports released.~~

5.12 Management Response to Assurance Audit Findings

- ~~a) After being provided with draft audit observations, the manager with authority to and responsibility for taking corrective action shall, in a timely manner, provide a written response to the Internal Auditor on the recommendations contained in the report.~~
- ~~b) Management shall, in a timely manner, following receipt of the audit report, provide the Internal Auditor with a plan of action, including target dates, for implementing the audit recommendations.~~
- ~~c) The Internal Auditor shall have authority to set the timelines for the receipt of a response or action plan, with respect to (a) and (b) above, when, in the opinion of the Internal Auditor, it is necessary to set the timelines, and may grant any such extensions to the same.~~
- ~~d) Management shall provide the Standing Policy Committee on Finance with progress reports, until action has been taken on all audit recommendations.~~

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.**

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- ab) ~~The Internal Audit will~~ shall include all **conduct** follow-up audits in the ~~Corporate Audit Plan 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 the Administration has taken appropriate actions to implement the recommendations.~~
- bc) ~~The~~ follow-up audits procedure and reporting **will** shall be performed in accordance with the process approved by the Standing Policy Committee on Finance.

5.14 Audit Working Papers

- a) ~~Audit working paper files are the property of the Internal Auditor. They shall remain under the control of, and shall be accessible only to personnel authorized by, the Internal Auditor.~~
- b) ~~Access to working paper files shall be governed by the IIA Standards for the Professional Practice of Internal Auditing and related Practice Advisories.~~

5.1414 Consulting Legal Counsel & Labor Relations Expertise

- a) ~~The Internal Auditor~~ **City Internal Auditor will** shall 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** shall consult with the City's Human Resources Division before including results and issuing opinions in ~~assurance engagement~~ **audit** reports that could have **human resource and/or** labour relations implications.

5.1415 Accountability Reporting Requirements

- a) ~~The Internal Auditor shall provide the Standing Policy Committee on Finance~~ **will be provided** with periodic reports, **at least on a quarterly basis,** (~~no less than quarterly~~) on performance and progress relative to the **approved internal** ~~Corporate Audit Plan.~~

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- 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 matter that the City Auditor deems relevant.

5.17 Periodic Assessment of the Charter

- a) The Internal Auditor ~~Audit Charter will~~ shall be periodically assessed, at least once every three years, as to whether the purpose, authority, and responsibility of the Internal Auditor's Office internal audit function, as defined in the Charter, continues to be adequate to enable the Internal Auditor's Office internal audit function to accomplish its objectives. The Internal Auditor shall communicate 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.

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- 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.**

~~5.18 Communications with and Access to the Internal Auditor~~

- ~~a) The Chair of the Standing Policy Committee on Finance may consult and/or meet with the Internal Auditor prior to any scheduled Standing Policy Committee on Finance meeting for the purpose of preparing the Standing Policy Committee on Finance agenda.~~
- ~~b) Individual members of City Council shall have unrestricted authority to meet at any time with the Internal Auditor but shall have no authority to direct the Internal Auditor to undertake any audit work.~~
- ~~c) Only the Standing Policy Committee on Finance, or the City Manager, shall have authority to engage the Internal Auditor to perform audits pursuant to this policy. Any requests by individual Councillors to engage the services of the Internal Auditor must be referred to the Standing Policy Committee on Finance for decision. This does not preclude the opportunity for the applicable Councillor to consult and/or meet in confidence with the Internal Auditor prior to the matter being brought before the Committee.~~

~~6. ENQUIRIES~~

~~All enquiries concerning this Charter should be referred to the Internal Auditor /or the Chair of the Standing Policy Committee on Finance.~~

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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.
- 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.