

SUMMARY

An IAD has been incorporated into the organizational structure of the City. A TOR has been prepared to guide the work of the IAD, copy of which is attached as Appendix "A" to this report.

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Appendix "A" – Internal Audit Division – Terms of Reference

Appendix A

INTERNAL AUDIT DIVISION TERMS OF REFERENCE

1. RESPONSIBILITIES AND OBJECTIVES

- 1.1 The Internal Audit Division (IAD) will undertake a regular program of assurance across all City departments with a view to providing an independent and objective opinion on the financial processes and the control environment (comprising governance, risk management, and internal control) by evaluating their effectiveness in achieving the City's objectives;
- 1.2 The IAD will undertake evaluations of external organizations for which the City has a significant financial role such as the Surrey City Development Corporation and the Surrey Housing and Homelessness Society with a view to ensuring that the financial processes and the control environment of these organizations are properly structured to achieve the City's objectives;
- 1.3 The IAD will respond on an "as needed" basis to circumstances and incidents that may occur from time to time and which require internal audit evaluation or investigation and in such circumstances may result in a report, which may include recommended actions and adjustments to financial processes and the control environment to achieve the City's objectives;
- 1.4 The objective of every audit undertaken by the IAD will be to add value by evaluating the control environment with a view to improving the effectiveness of financial and operating activities in support of the City's broader objectives;
- 1.5 The objective of every report prepared by the IAD will be to summarize the results of the work that has been undertaken and to provide an evaluation of the risks and controls of the area under review and to provide recommendations as modifications that should be considered where necessary;
- 1.6 The work of the IAD is not intended to diminish the responsibility of the City's management to establish a control environment including systems of internal control, risk management, and governance to ensure the City's objectives are met.
- 1.7 The IAD will provide input and advice with respect to the development of new City policies and procedures and the design of new City facilities particularly with respect to the control environment with a view to ensuring the City's objectives are achieved; and
- 1.8 The IAD will provide advice and clarification to City staff on the Code of Conduct By-law and the Whistle Blower Policy.

2. INDEPENDENCE AND ACCOUNTABILITY

- 2.1 The IAD is to remain independent of the City's other services to ensure that the audit staff make impartial professional judgements in relation to the audit work with which they are involved;
- 2.2 The IAD has full and unrestricted direct access to the City's records, assets, and employees in relation to any area under review and which it considers necessary to fulfill its responsibilities and achieve its objectives for the purpose of reporting independently and impartially and making sound recommendations. Where information is highly confidential, access to such information will be restricted to the Manager of the IAD;
- 2.3 Each IAD auditor is required to proactively declare any potential conflict of interest prior to the commencement of each audit engagement;
- 2.4 Accountability for responding to IAD advice and recommendations rests with the City's senior management team.
- 2.5 An annual report from the IAD will be provided to the Audit Committee of City Council with such a report providing an overview of the outcomes of the IAD work in the previous year and the work plan for the IAD for the current year. Other IAD reports may be provided to the Audit Committee from time to time on specific matters that are under review by the IAD.

3. INTERNAL AUDIT RESOURCES

- 3.1 The IAD has resources as determined by the City's Financial Plan;
- 3.2 The Internal Audit Manager is responsible for ensuring that Internal Audit Division resources are used efficiently to meet the responsibilities of and achieve the objectives of the Division; and
- 3.3 The Internal Audit Manager is responsible for reviewing Internal Audit Division resources annually as part of the development of the annual Work Plan for the IAD and to make recommendations in this regard to the City Manager.
- 3.4 The Internal Audit Manager is responsible to ensure the appropriate technical skills are engaged to perform the duties of the IAD and to develop the staff of the IAD from a technical perspective to be able to effectively perform the necessary work.

4. SCOPE

- 4.1 The scope of an internal audit is not limited to financial processes and may include examination and evaluation of:
- Existence, relevance, and effectiveness of, and compliance with City by-laws, policies, procedures, and plans as well as with external laws and regulations;
 - Operating effectiveness, efficiency, quality and the responsible use of City resources and assets; and
 - Adequacy of ability to monitor, assess, report and respond to risks.
- 4.2 The scope of the Internal Audit Division includes:
- a) The City of Surrey, inclusive of all its departments;
 - b) External organizations that are directly or indirectly controlled by the City and organizations for which the City may have a material financial relationship; and
 - c) Revenue and expense contracts that the City has in place with external vendors.

5. COMPOSITION AND REPORTING STRUCTURE

- 5.1 The Internal Audit Division is comprised of the Internal Audit Manager, internal auditors and sector specialists as funded by the annual Council-approved City Financial Plan.
- 5.2 Subject to approval by the City Manager or his/her designate, the IAD may contract third party resources to provide additional resources and/or specialized expertise when needed.
- 5.3 The Internal Audit Manager reports to the Deputy City Manager. The Internal Audit Manager may request a meeting of the Audit Committee where the Manager determines that such a meeting is necessary or appropriate.

6. FRAUD AND CORRUPTION

- 6.1 The Internal Audit Division is not specifically responsible for the prevention or detection of fraud and corruption, but is expected to report any instances that they discover in their work. Audit procedures alone cannot guarantee that fraud or corruption will be detected.
- 6.2 Internal auditors will be alert to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. They will be responsible for reporting any such items.

- 6.3 The Internal Audit Manager is to be informed of all suspected or confirmed fraud, corruption, or impropriety with a view to formulating an opinion on the adequacy and effectiveness of the relevant internal controls and the overall internal control environment.
- 6.4 The Internal Audit Manager is to be informed of all suspected or confirmed fraud, corruption, or impropriety with a view to ensuring that investigations of such matters are carried out in an appropriate manner.

7. CORPORATE AUDIT PLAN

- 7.1 The Corporate Audit Work Plan will include provision for the following:
 - Regular Work Assignment with a view to completing all corporate areas in scope over a three year period;
 - Special Projects executed without notice; and
 - Special Work Assignments that occur extemporaneously as a result of new information or allegations that are received during the course of a year.
- 7.2 The Corporate Audit Work Plan establishes the audit work scheduled for the Internal Audit Division for the fiscal year. The Work Plan is reviewed and approved by the Deputy City Manager with the advice of the General Manager, Finance and Technology and will be forwarded to the Audit Committee of Council as information.
- 7.3 The development of the annual Corporate Audit Work Plan will utilize a risk-based approach that incorporates various factors in determining the scheduled audit work for each fiscal year. These factors include:
 1. Available resources - the number of staff hours available for audit work taking into consideration time for professional development and training.
 2. Management concerns - specific concerns that management has brought to the attention of the Internal Audit Division.
 3. Audit history - incorporates the level of audit work conducted in a specific area and corresponding audit issues noted.
 4. Materiality - incorporates the related relative risk of a potential audit target, including financial and non-financial factors.
 5. Control environment - an assessment of the relevant strength of existing internal controls or the control environment in a given area.
 6. Risk assessment prioritization - the work of the IAD will be prioritized based on an enterprise risk assessment related to the City and to its Departments.

8. COMMUNICATION WITH THE AUDIT COMMITTEE

8. 1 The Internal Audit Manager will attend Audit Committee meetings for the purpose of presenting the Annual Work Plan as well as the IAD Annual Report.
8. 2 The Internal Audit Manager will also attend meetings of the Audit Committee as required to report on matters related to the control environment of the City that are considered material..