



Internal Audit Charter

City of Madison

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This document must be read alongside with:

- The International Standards for the Professional Practice of Internal Auditing issued by The Institute of Internal Auditors (IIA), as well as the Code of Conduct adopted by the institute; and
- The City of Madison Internal Audit Standard Operating Procedures.

1. Introduction

- 1.1 The Internal Audit function is a unit under the Finance Department -City of Madison (“the City”). The unit was established by the City’s [Code of Ordinances section 4.02\(3\)](#). This Internal Audit charter shall be the authority that dictates the activities of the City of Madison Internal Audit function.
- 1.2 This charter shall include the Internal Audit function’s mission and purpose, authority, accountability, independence and objectivity, the scope of the Internal Audit activities, responsibilities and the professionalism that the Internal Audit retains within the City in order to maintain its professionalism and responsibility to better serve the City.
- 1.3 Risk based auditing is a central focus as espoused in the City’s code of ordinances and enacted in the yearly Internal Audit plan. The repositioned risk based Internal Audit direct the Internal Audit function to review strategic, operational, financial, and sustainability issues in the quest to deliver value to the City.

2. Mission and Purpose

- 2.1 The Internal Audit function shall provide risk-based independent, objective assurance and consulting services to all the City’s agencies and departments in order to add value and improve the overall City’s operations. This mission shall be accomplished by providing key information to the City’s management and boards, and the general public to maintain accountability; to help improve program performance and operations; to reduce costs; to facilitate decision making; to stimulate improvements; and to identify current and projected issues that may affect government programs and the people those programs serve. This mission is in accordance with the Institute of Internal Auditors’ definition of Internal Auditing.
- 2.2 This Internal Audit Charter profiles the purpose, authority and responsibility of the Internal Audit function, consistent with the mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing).
- 2.3 This charter will be reviewed at least annually by the Internal Audit Manager and be presented to the Finance Director for inputs, and the Finance Committee for approval.

3. Scope of Work

- 3.1 The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the City’s systems of internal controls and the quality of performance in carrying out assigned responsibilities. Internal Audit may:
 - 3.1.1 Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report information.
 - 3.1.2 Review systems established to ensure compliance with those policies, plans, procedures, laws and regulations that could have a significant impact on operations and reports, and to determine whether the organization is in compliance.
 - 3.1.3 Review the means of safeguarding assets and verify their existence.
 - 3.1.4 Appraise economy and efficiency with which resources are employed.

- 3.1.5 Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations of programs are being carried out as planned.
- 3.2. The scope of work of Internal Audit is intended to determine whether the organization's strategic design, implementation, documentation and reporting of processes listed above are adequate and operating in a manner as represented by management. This should ensure the following:
 - 3.2.1 Risks are identified, communicated, documented and managed.
 - 3.2.2 Interaction with the various governance groups occurs as needed.
 - 3.2.3 Significant financial, managerial, and operational information is accurate, relevant, reliable and timely.
 - 3.2.4 Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
 - 3.2.5 Resources are acquired economically, used efficiently, and adequately safeguarded/maintained.
 - 3.2.6 Programs, plans and objectives are achieved as committed and/or budgeted.
 - 3.2.7 Quality and continuous improvements are fostered within the City's control processes.
 - 3.2.8 Significant legislative and regulatory issues impacting the City are identified, recognized, and addressed appropriately.
 - 3.2.9 Opportunities, identified for improving management control, accountability and the City's core value are communicated to the proper level of management.

4. Professionalism

- 4.1 The Internal Audit function shall adhere to the provisions of the Generally Accepted Government Auditing Standards (Yellow Book) in addition to the Institute of Internal Auditor's Practice Advisories, Practice Guides, as applicable to guide operations. It shall also comply with all the City and the Internal Audit function relevant operational policies and procedures. The function shall always provide appropriate disclosure of any departures that were made during specific audits.
- 4.2 The Internal Audit function will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), including the Core Principles for the Professional Practice of Internal Auditing, the definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (IIA Standards).
- 4.3 The Internal Audit function fully understands the duties and responsibilities outlined in Section 1.01 through 1.15 of the Generally Accepted Government Auditing Standards in regards to auditing as an essential element of public control and accountability. The audits provided by the Internal Audit function of the City shall contribute to this accountability measure by aiding the decision making process for the responsible parties of management.

5. Authority

- 5.1 The Internal Audit is authorized to:
 - 5.1.1 Have unrestricted access to all functions, records, property, and personnel of the City.
 - 5.1.2 Have a full and unrestricted access to all members of the Common Council.
 - 5.1.3 Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
 - 5.1.4 Obtain the necessary assistance of personnel in the operating directorates and departments where they perform audits, as well as other specialized services from within or outside the City. Where external services are engaged, they shall be procured through the City's Procurement process.

- 5.2 The Internal Audit function is not authorized to:
 - 5.2.1 Perform any operational duties for any agency or department except with the prior approval of the Finance Committee. Such approval shall only be granted in exceptional circumstances due to the potential for a conflict of interest and its impact on the independence of the Internal Audit function.
 - 5.2.2 Initiate or approve accounting transactions external to the Internal Audit function.
 - 5.2.3 Direct the activities of any employee not employed by the Internal Audit function, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditors.

- 5.3 Internal Audit is not responsible for any of the activities, which they audit. Members of the Internal Audit function will not assume the responsibilities for the operation or control of any procedures.

6. Responsibility

- 6.1 The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management, and internal controls, as well as the quality of performance in carrying out assigned responsibilities to achieve the City's stated goals and objectives.

- 6.2 This includes:
 - 6.2.1 Develop a flexible annual audit plan using appropriate risk-based methodology, including risk or control concerns expressed by any member of the City Management, Finance Committee, Common Council members, and/or citizens, and submit this plan to the Common Council through the Finance Committee for review. The Finance Director and the Internal Audit Manager shall have the final authority to select the audits planned for the coming year.

- 6.2.2 Implement the annual audit plan after final approval by the Common Council, and communicate it to the City management. The annual audit plan may include special projects requested by City management, Common Council, and/or citizen (if determined to be appropriate by the Internal Audit Manager).
- 6.2.3 Evaluate the governance processes including ethics, especially the tone at the top;
- 6.2.4 Evaluate risk exposure relating to the achievement of the City's strategic objectives;
- 6.2.5 Evaluate the reliability and integrity of information and means used to identify, measure, classify, and report such information;
- 6.2.6 Determine that the actions of the City's officers, managers, employees, and contractors follow the City's policies, procedures, and applicable laws, regulations, and governance standards;
- 6.2.7 Determine that the results of operations or programs are consistent with established goals and objectives;
- 6.2.8 Evaluate the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the City;
- 6.2.9 Evaluate the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- 6.2.10 Evaluate the effectiveness and efficiency with which resources are employed;
- 6.2.11 Evaluate operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
- 6.2.12 Provide periodic reports to the Common Council as required by Section 4.02 (3) (c), summarizing audits completed, to be completed, and planned. Per the resolution listed, this will be completed semi-annually (twice a year).
- 6.2.13 Provide an annual report of audit activities to Common Council summarizing the implementation status of all recommendations from current and past audits. Any and all open recommendations will be followed up on continuously and re-communicated through these reports.
- 6.2.14 Maintain a staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of Generally Accepted Government Auditing Standards (GAGAS). This includes meeting the minimum continuing education credits as required by GAGAS.

- 6.2.15 Establish and maintain Internal Audit’s policies and procedures manual that contains specific guidelines of operations for the function which serves as a reference for design, execution, and assessment of the audit activities. These policies and procedures will reflect and be in compliance with GAGAS.
- 6.2.16 Establish and maintain a quality assurance program. This provides reasonable assurance regarding the operations of Internal Audit in regard to compliance with GAGAS, this charter and the Internal Audit policies and procedures manual. This includes internal and external review and reporting of periodic results in performance, along with a feedback mechanism of measurable value for assessment that will be communicated, when appropriate, to the Finance Committee and Common Council.
- 6.2.17 Investigate alleged fraudulent activities of the City that are reported to Internal Audit directly or through other means. Trend analysis of fraud reports may initiate an Internal Audit of the impacted City programs or agencies.
- 6.2.18 Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal coverage, avoiding duplication of effort, building professional rapport, and further developing reliance on credibility and validity of the Internal Audit function. This results in creating efficiencies and reducing costs.

7. Accountability

- 7.1 The Internal Audit function, in the discharge of the duties, shall:
 - 7.1.1 Provide an ongoing assessment on the adequacy and effectiveness of the City’s processes for controlling its activities and managing risks as set out in the Finance Department’s mission statement.
 - 7.1.2 Report significant issues (including unmitigated risks and control deficiencies as expressed in engagement –level assessments) related to the process for controlling the activities of the City, including recommendations for improvement to those processes.
 - 7.1.3 Maintain adequate documentation to support conclusions in the form of work paper files that can also be reviewed for efficiency, relevance to audit plan and program, future audit work, and quality assessment purposes.
 - 7.1.4 Report quarterly on the status and results of the annual Internal Audit plan and the sufficiency of Internal Audit resources.
 - 7.1.5 Coordinate with and provide oversight over other activities such as risk management, compliance, security, legal, ethics, environmental and safety, etc.
 - 7.1.6 Prepare an annual audit plan and communicate planned audits for the upcoming year. The final audit plan will be reviewed by the Finance Director and approved by the Common Council through the Finance Committee. Furthermore, Internal Audit Manager will provide periodic updates on the status of audits and resources involved to achieve goals.

8. Independence and Objectivity

- 8.1 The Internal Audit function must be independent, and Internal Auditors must be objective in performing their work. The Internal Audit function will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.
- 8.2 For Internal Audit to be independent, the function is set up to report dually to the Finance Committee and also to the independently elected City's Council members (all of Common Council). Internal Audit, when reporting its audits and activities, will primarily report and communicate to the Finance Committee. This committee can change dependent upon the scope of the audit and which committee is most relevant for the report.
- 8.3 The Internal Audit function will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair judgment.
- 8.4 The Internal Audit function will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Audit function will make an unbiased assessment of all the relevant circumstances and not be duly influenced by their personal interest or by others in forming judgements.
- 8.5 Internal Auditors must have an impartial, unbiased attitude and avoid any conflict of interest. If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.
 - 8.5.1.1 Concurrently, the Finance Director serves as the head of the Internal Audit function fulfilling the independence requirement of the function by separating the duty from the City financial function. The Finance Director will sign all official correspondence including, but not limited to final audit reports, audit announcement letters, and letters of communication to other City departments and elected officials.
- 8.6 The Internal Audit Manager must confirm to the Council, at least annually, the organizational independence of the Internal Audit function.

9. Proficiency

- 9.1 Engagements shall be performed with proficiency and due professional care. Internal Auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.
- 9.2 The Internal Audit function collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Internal Auditors are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud but shall have enough knowledge to identify the indicators of fraud.
- 9.3 Internal Auditors are not expected to have the expertise of an Internal Auditor whose primary

responsibility is information technology auditing but shall have knowledge of key information technology risks and controls to enable them to perform their assigned work.

10. Due Professional Care (IIA Standard 1220)

10.1 Internal Auditors shall apply the care and skill expected of a reasonably prudent and competent Internal Auditor. Due professional care does not imply infallibility.

11. Continue Professional Development (IIA Standard 1230)

11.1 Internal Auditors are expected to enhance their knowledge, skills, and other competencies through continuing professional development.

12. Reporting and Monitoring

12.1 The Internal Audit Manager is responsible for communicating the results of the various engagements

12.2 The aim of internal audit reports is to:

12.2.1 Inform management of the status of the controls in place to manage the area being audited;

12.2.2 Prompt management to implement recommendations with the objective of improving performance and control;

12.2.3 Record management comments and timeframes for proposed action; and,

12.2.4 Provide a formal record of points arising from the internal audit assignment and agreement or disagreement with management.

12.3 Reporting arrangements, including the format and distribution of internal audit reports, shall be in accordance with the approved Internal Audit Methodology and as set out in the Planning Memorandum/letter or terms of reference. Internal audit reports are confidential documents and their distribution shall therefore be restricted.

12.4 Final reports shall be communicated to the following parties:

12.4.1 The Head of agency or department audited;

12.4.2 The Mayor's Office

12.4.3 The Finance Committee Chairperson

12.4.4 The President, Common Council;

12.4.5 The general public

12.5 The Internal Audit function will produce clear, constructive and concise written reports based on sufficient, relevant and reliable evidence, which:

12.5.1 State the scope, purpose, extent and conclusions of the internal audit assignment;

12.5.2 Make recommendations which are appropriate and relevant, and which flow from the conclusions; and,

12.5.3 Acknowledge the actions taken, or proposed, by management.

12.6 The Internal Audit Manager will provide management with written audit findings during an internal audit assignment. The purpose of the findings is to gather further information, gain

confirmation of factual accuracy and to obtain line management's comments for inclusion in the draft report.

- 12.7 It is the responsibility of management to ensure that proper consideration is given to draft internal audit findings and to provide comment thereon within no later than three (3) working days.
- 12.8 Findings may be amended on receipt of line management's comments. If line management disagrees on the factual content of any findings, the disagreement will be included in the draft report, and the Internal Audit Manager may provide further comment thereon in the final report.
- 12.9 It is the responsibility of management to ensure that proper consideration is given to internal audit reports. Where recommendations are not implemented, management is deemed to have understood and assumed the risks of not taking appropriate action.
- 12.10 While the Internal Audit function will endeavor to follow up on key or material findings after expiry of the agreed timeframes for action, the function is not obliged to do so due to its limited resources.

13 Limitation of Scope

- 13.1 Failure by management to adhere to internal audit timeframes, and/or a scope limitation by management, must be reported, in writing to the Finance Director and to the Mayor who also serves as the Finance Committee Chairperson.
- 13.2. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the Internal Auditor.
- 13.3. Except in cases of suspected fraud, the Finance Director and the Mayor may decide to accept a limitation of scope.
- 13.4. In such instances, the Internal Auditor should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the Finance Director and the Finance Committee Chairperson for their renewed consideration.

14 Dispute by Management on the factuality of Internal Audit Findings

- 14.1 The internal auditor must engage the auditee with substantiated evidence of the audit finding. The auditee will then be afforded three (3) days to respond to the facts of the audit finding.
- 14.2. The internal auditor will assess the response and review the new evidence. An auditor's conclusion will then be submitted to the auditee. Should the audit dispute persist the final arbitrator will be the Finance Committee. This dispute will be submitted to the Finance Committee in writing by the auditee, stating merits and the nature of the dispute.

15 Reporting to the Finance Committee

- 15.1 The Internal Audit Manager will report periodically to the Finance Committee on the internal audit function's performance relative to its plan. Reporting will also include significant risk exposure, control and, corporate governance issues, etc.
- 15.2. No official may alter the content of any report by the Internal Audit Manager to the Finance Committee but may furnish comment thereon.

- 15.3. The summary of all final internal audit reports issued will be reported to the Finance Committee.

16 Staffing

- 16.1 The Internal Audit Manager in conjunction with the Finance Director, would develop an Internal Audit function structure taking cognizance of the organization's needs including risk and complexity of the operations.
- 16.2. Provision would be made for levels of supervision and review of audit work in line with due professional care as provided for in the International Standards for the Professional Practice of Internal Auditing (Standards).
- 16.3. In developing the operational internal audit plan the following key issues must be considered:
 - 16.3.1. Availability (capacity) and skills of internal audit staff;
 - 16.3.2. Changes in the risk environment of the organization - the risk environment should be assessed on an annual basis;
 - 16.3.3. Approval and acceptance of the operational plan by the Finance Committee; and,
 - 16.3.4. The materiality of ad-hoc requests as this could have a significant impact on the normal audit planning and timing process.
- 16.4. The operational Internal Audit plan should be reviewed to identify any amendment needed to reflect changing priorities and emerging audit needs. The Common Council through the Finance Committee will approve all material changes to the annual plan.

17 Quality Assurance and Improvement Program (QAIP)/Peer Review

- 17.1 The Internal Audit Manager must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit function.
- 17.2. The program will include an evaluation of the internal audit function's conformance with the definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics.
- 17.3. The program shall also assess the efficiency and effectiveness of the Internal Audit function and identify opportunities for improvement.
- 17.4. The quality assurance and improvement program must include both internal and external assessments.
- 17.5. Internal assessment must include;
 - 17.5.1. Ongoing monitoring of the performance of the Internal Audit function
 - 17.5.2. Periodic self-assessments or assessments by other persons within the organization with enough knowledge of internal audit practices.
- 17.6. External assessments must be conducted at least once every three (3) years by a qualified, independent assessor or assessment team from outside the organization.
- 17.7. The Internal Audit Manager must discuss with the Finance Committee:

- 17.7.1. The form and frequency of external assessment.
- 17.7.2. The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- 17.8. The scope of the external assessment will, among others, cover matters related to:
 - 17.8.1. Independence and objectivity of the Internal Audit function;
 - 17.8.2. Expectations of the Internal Audit function expressed by management and Finance Committee;
 - 17.8.3. Integration of the Internal Audit function into the organization's governance processes; and,
 - 17.8.4. Efficiency and effectiveness of internal audit approach, as well as audit strategy and plans.
- 17.9. On completion of the external assessment, the review team should issue a formal report containing an opinion on the level of the Internal Audit function's compliance with the Standards.
- 17.10. The Internal Audit Manager and Finance Director should prepare a written action plan in response to comments and recommendations in the report.

18 Mandate and Approval

- 18.1 Internal Audit Manager should periodically assess whether the purpose, authority and responsibility, as defined in this charter, continue to be adequate to enable the internal auditing activity to accomplish its objectives.
- 18.2. The result of this periodic assessment should be communicated to Top Management for noting and input, as well as to the Finance Committee for subsequent approval.

Description	Name	Designation	Signature	Date
Prepared By	Kolawole Akintola	Manager Internal Audit		
Reviewed By	David Schmiedicke	Finance Director		
Accepted By	Satya Rhodes-Conway	Mayor		
Approved By	Jael Currie	President, Common Council		