



CHARTER

PURPOSE AND MISSION

The purpose of the City of Tempe's (the City) Internal Audit Office (IAO) is to provide independent, objective assurance and consulting services designed to add value and improve the City's operations. The mission of IAO is to enhance and protect organizational value by providing high-quality, risk-based, objective assurance, advice, and insight to assist the City in achieving strategic priorities, goals, and objectives. The IAO helps the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

The IAO will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (the Standards)* and the Definition of Internal Auditing. The chief audit executive (City Auditor) will report periodically to the City Manager, senior management, and the Council (as applicable), and the Audit Committee (when established), regarding the IAO's conformance to the Code of Ethics and the *Standards*.

AUTHORITY

The City Auditor will report functionally to the City Manager and administratively (i.e., day-to-day operations) to the City Manager or designee. To establish, maintain, and assure that the IAO has sufficient authority to fulfill its duties, the City Manager will:

- Approve the IAO charter.
- Approve the annual, risk-based engagement plan.
- Receive communications from the City Auditor on the IAO's performance relative to its plan and other matters.
- Approve decisions regarding the hiring and removal of the City Auditor.
- Approve the compensation of the City Auditor.
- Make appropriate inquiries of management and the City Auditor to determine whether there is inappropriate scope or resource limitations.

The City Auditor will have unrestricted access to, and communicate and interact directly with, the City Manager and Audit Committee (when established), which may include a request for private meetings without senior management present.

By approving this Charter, the City Manager authorizes the IAO to:

- Full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement except where prohibited by law.
- Allocate audit resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.

- Obtain assistance from the necessary City personnel as well as other specialized services from within or outside the City to complete the engagement, subject to approval and within the scope of the IAO budget.

RESPONSIBILITY

The City Auditor has the responsibility to:

- Submit to the City Manager and the Audit Committee (when established) a risk-based engagement plan for review and approval at least annually.
- Communicate to the City Manager, senior management, and the Audit Committee (when established) how resources may impact, and any significant changes to, the engagement plan.
- Review and adjust the engagement plan, as necessary, in response to changes in the City's business, risks, operations, programs, systems, and controls.
- Ensure each engagement is properly executed consistent with the requirements of the *Standards* and the IAO processes and procedures.
- Follow up on engagement findings and corrective actions, and report periodically regarding any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Ensure the IAO collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- Ensure trends and emerging issues that could impact the City are considered and communicated to the City Manager, senior management, and the Audit Committee (when established) as appropriate.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Establish and ensure adherence to policies and procedures designed to guide the IAO.
- Ensure adherence to the City's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to the City Manager, the Audit Committee (when established), and senior management (as necessary).
- At least annually, review and adjust the IAO Charter (as necessary) in response to updated *Standards* and changes in IAO authority and responsibility.
- Ensure the IAO's conformance with the *Standards*, with the following qualifications:
 - If the IAO is prohibited by law or regulation from conformance with certain parts of the *Standards*, the City Auditor will ensure appropriate disclosures are made and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by Generally Accepted Government Audit Standards (GAGAS), the City Auditor will ensure that the IAO conforms with the *Standards*, even if the IAO also conforms with the more restrictive requirements of GAGAS.

INDEPENDENCE AND OBJECTIVITY

The City Auditor will ensure that the IAO remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and report content. If the City Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the City Manager and the Audit Committee (when established).

The City Auditor and IAO staff shall maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that others do not improperly influence their judgment on engagement matters.

The City Auditor and IAO staff will have no direct operational responsibility or authority over any of the activities audited. Accordingly, the City Auditor and IAO staff will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had worked in or had responsibility for within the previous year.
- Performing any operational duties for the City or its affiliates.
- Initiating or approving transactions external to the IAO.
- Directing the activities of any City employee not employed by the IAO, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the City Manager and the Audit Committee (when established).
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest or undue influence or the appearance of such.

The City Auditor will confer with the City Manager and Audit Committee (when established), at least annually, the organizational independence of the IAO, and will disclose any difficulties or issues related to completing engagements and performing work.

SCOPE OF IAO ACTIVITIES

The scope of the IAO activities encompass, but are not limited to, objective examinations of evidence to provide independent assessments to the City Manager, Audit Committee (when established), senior and department management, and outside parties (as applicable) on the adequacy and effectiveness of governance, risk management, and control processes for the City. The IAO also conducts investigations and oversees the employee suggestion program and integrity reporting hotline. The IAO assessments may include evaluating whether:

- Risks relating to the achievement of City's strategic objectives are appropriately identified and managed.
- The actions of City's officers, directors, employees, and contractors comply with the City's policies, procedures, and applicable laws, regulations, and governance standards.
- The City's contract compliance system is operating effectively.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the City.
- Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The City Auditor will report at least semiannually to the City Manager and the Audit Committee (when established) regarding:

- The IAO's purpose, authority, and responsibility.
- The IAO's plan updates and performance relative to its plan.
- The IAO's conformance with The IIA's Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring attention.
- Results of audit engagements or other activities.
- Resource requirements.
- Any decisions by management to accept an identified risk that IAO deems may be unacceptable to the City.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

The City Auditor may also coordinate activities, where possible, and consider relying upon the work of other internal and external assurance and consulting service providers as needed. The IAO may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided the IAO does not assume management responsibility. In addition, the City Auditor and IAO may incorporate roles that fall outside of internal audit, in these cases safeguards will be put in place to limit impairments to independence and objectivity.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)

The IAO will maintain a QAIP that covers all aspects of the IAO. The program will include an evaluation of the IAO's conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the IAO and identify opportunities for improvement.

The City Auditor will communicate the results of the QAIP to the City Manager and the Audit Committee (when established), including results of internal assessments (both ongoing and periodic) and external assessments (conducted at least once every five years by a qualified, independent assessor or assessment team from outside the City).

Review/Approval*

Lori K. M. Cox, City Auditor, April 10, 2018

Legal Office Review, April 10, 2018

Andrew Ching, City Manager, Approval May 1, 2018

* Original signed copy available upon request.