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## Internal Audit Charter

For decision:  For noting:

### Te tūhunga / Recommendation

That the Auckland Transport Board (board):

- a) Approves the updated Internal Audit Charter.

### Te whakarāpopototanga matua / Executive summary

1. The Internal Audit Charter must be regularly reviewed to assess whether it provides a suitable functional and organisational framework to enable Auckland Transport's (AT's) internal audit function to work effectively and without limitations.
2. We have recently updated the Internal Audit Charter to ensure that it reflects current structures, professional standard requirements, and internal audit practices at AT.

### Ngā tuhinga ō mua / Previous deliberations

3. The Finance and Assurance Committee reviewed the updated Internal Audit Charter at its meeting of 10 May 2022. The Committee recommended the updated Internal Audit Charter to the board for approval.

### Te horopaki me te tīaroaro rautaki / Context and strategic alignment

4. Internal audit plays a key role in AT's corporate governance framework by providing objective assurance and insight on the effectiveness and efficiency of risk management, internal control, and governance processes.
5. To function effectively, internal audit must have a clearly defined and articulated mandate from the board and management. This mandate is articulated through the Internal Audit Charter. The Internal Audit Charter formally outlines internal audit's role, responsibilities, authority, standards, and accountabilities and formalises the position of internal audit in AT's governance framework.

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## Ngā matapakinga me ngā tātaritanga / Discussion and analysis

6. Below is an overview of the key changes made from the current charter and the rationale for the changes made:

| Key change from current charter   | Rationale  | Reference in updated charter          |
|---|--|---------------------------------------|
| <p><b>Role, guiding principles, standards, and definition of internal auditing.</b></p> <ul style="list-style-type: none"> <li>We have updated details relating to the role of internal audit, guiding principles, standards, and definition of internal auditing.</li> </ul>   | <ul style="list-style-type: none"> <li>To align our charter to the Institute of Internal Auditors <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> which were updated in 2017. The updated standards require that the mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the Standards are recognised in the Internal Audit Charter. This will help to raise awareness of Internal Audit's commitment to the standards and our accountability to conduct our work following these standards.</li> </ul> | <p>See section 1 of the Charter</p>   |
| <p><b>Independence and objectivity</b></p> <ul style="list-style-type: none"> <li>Internal audit's dual reporting to the Chief Executive and to the committee has been highlighted.</li> </ul>  | <ul style="list-style-type: none"> <li>As this dual reporting relationship is not reflected in the organisation chart, we have included it in the charter for clarity.</li> </ul>  | <p>See section 3.1 of the Charter</p> |
| <ul style="list-style-type: none"> <li>More detail has been included to explain what administrative (i.e., day to day operations) reporting by internal audit to the chief executive means and what functional reporting to the committee means.</li> </ul>   | <ul style="list-style-type: none"> <li>To ensure that there is a collective understanding of key activities and actions that the chief executive and the committee must take to support internal audit's independence within the organisation.</li> </ul>  | <p>See section 3.1 of the Charter</p> |
| <ul style="list-style-type: none"> <li>We have included commentary about the appointment and removal of the EGM Risk and Assurance who serves as Auckland Transport's "Chief Audit Executive" **</li> </ul> <p>** Chief audit executive –The 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA) defines the Chief Audit Executive as: "the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the Internal Audit Charter and the mandatory elements of the International</p> | <ul style="list-style-type: none"> <li>The committee charter does not reference this issue. Recommended good practice from the Institute of Internal Auditors is that audit committee approval is needed before the Chief Executive can appoint or remove the Chief Audit Executive.</li> </ul>  | <p>See section 3.1 of the Charter</p> |

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| Key change from current charter  | Rationale   | Reference in updated charter           |
|--|---|--|
| <p>Professional Practices Framework.” The Executive General Manager Risk and Assurance (EGM Risk and Assurance) is Auckland Transport’s chief audit executive.</p>   |   |  |
| <ul style="list-style-type: none"> <li>In addition to internal audit, the EGM Risk and Assurance is responsible for risk management, business continuity planning, compliance monitoring, policy development oversight, conflicts of interest, fraud policy, probity, and legal services. We have included a clause in the charter about the EGM Risk and Assurance’s roles beyond internal audit and the proposed safeguards to manage potential conflicts of interest and to mitigate potential impairment of independence and objectivity.</li> </ul> | <ul style="list-style-type: none"> <li>This is a new requirement from the 2017 update of the Internal Auditing Standards. A new standard “IIA Standard 1112 – Chief Audit Executive Roles Beyond Internal Auditing” was issued because the Institute of Internal Auditors recognised that in some organisations, chief audit executives were responsible for activities outside of internal audit. Standard 1112 highlights the fact that when chief audit executives are responsible for activities outside of internal audit, it could jeopardise their ability to be completely independent or objective. The standard states:                     <p style="text-align: center;"><i>“Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.”</i></p> </li> <li>It is important that management and the committee are comfortable with proposed actions to safeguard potential impairments to the EGM Risk and Assurance’s independence and objectivity in relation to responsibilities outside of internal audit.</li> </ul> | <p>See section 3.3 of the Charter.</p> |

### Ngā tūraru matua / Key risks and mitigations

- Key risks that may affect internal audit’s ability to function effectively include lack of authority, independence, and unclear responsibilities. These risks have all been considered in updating the Internal Audit Charter and appropriate mitigations are included in the Charter.

### Ngā ritenga-ā-pūtea me ngā rauemi / Financial and resource impacts

- Not applicable. Implementation of this Internal Audit Charter will not require any additional resources.

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## Ngā whaiwhakaaro ō te taiao me te panonitanga o te āhuarangi / Environment and climate change considerations

9. Not applicable. Implementation of this Internal Audit Charter will not have any environment and climate change impact.

## Ngā whakaaweawe me ngā whakaaro / Impacts and perspectives

### Mana whenua

10. There are no mana whenua issues that will arise from the implementation of the Charter.

### Ngā mema pōti / Elected members

11. There are no elected member issues that will arise from the implementation of the Charter.

### Ngā rōpū kei raro i te Kaunihera / Council Controlled Organisations

12. There are no Council Controlled Organisation issues that will arise from the implementation of the Charter.

### Ngā kiritaki / Customers

13. There are no customer issues that will arise from the implementation of the Charter.

## Ngā whaiwhakaaro haumaruru me ngā whaiwhakaaro hauora / Health, safety, and wellbeing considerations

14. There are no safety issues that will arise from the implementation of the Charter.

## Ā muri ake nei / Next steps



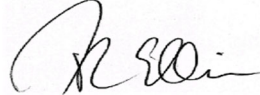
15. The approved Charter will be published on AT's intranet and communicated to internal audit team staff and the wider business.

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## Te whakapiringa / Attachment

| Attachment number | Description                     |
|-------------------|---------------------------------|
| 1                 | Internal Audit Charter May 2022 |

## Te pou whenua tuhinga / Document ownership

|                         |  |   |
|-------------------------|--|---|
| Submitted by            | Thembi Nyathi<br><b>Manager Internal Audit</b>                       |  |
| Recommended by          | Rodger Murphy<br><b>Executive General Manager Risk and Assurance</b> |  |
| Approved for submission | Shane Ellison<br><b>Chief Executive</b>                              |  |