

Internal Audit Charter

May 2022

Attachment 1

Draft for approval



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Internal Audit Charter

May 2022

1. INTRODUCTION

2. AUTHORITY AND CONFIDENTIALITY

3. INDEPENDENCE AND OBJECTIVITY

4. SCOPE OF INTERNAL AUDIT WORK AND RESOURCING

5. INTERNAL AUDIT RESPONSIBILITIES

6. QUALITY ASSURANCE AND PERFORMANCE EVALUATION

7. REVIEW AND APPROVAL

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1.1 Purpose

- This document sets out the purpose, authority, and the responsibility of the Internal Audit function at Auckland Transport (AT). It provides the framework for the conduct of internal audits and has been approved by the Auckland Transport Board (the Board) on the recommendation of the Finance and Assurance Committee (the FAC).

1.2 Role

- Internal Audit's mission is to enhance and protect organisational value by providing independent, risk-based objective assurance, advice, and insight.

1.3 Guiding principles and standards

- In addition to AT's policies and procedures including this Internal Audit Charter, the Internal Audit function operates under the guidance of the International Professional Practices Framework (IPPF), published by the Institute of Internal Auditors, including the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing (the IIA Standards).

1.4 Definitions

- Internal audit function - In the context of this Charter, the internal audit function comprises resources associated with the provision of internal audit services. These resources may be internal or external to AT.
- 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 Professional Practices Framework". The **Executive General Manager Risk & Assurance** is Auckland Transport's chief audit executive.
- Management – this is AT's executive management team comprising the Chief Executive and Executive Leadership Team.
- Internal auditing - Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Internal Audit assists AT to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Definition of Internal Auditing - The Institute of Internal Auditors).
- Finance and Assurance Committee – this is the board subcommittee responsible for overseeing the independence and objectivity of the internal audit function, reviewing its effectiveness and ensuring that it has appropriate authority within AT to carry out its responsibilities.



2.1 Authority

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- Internal Audit staff and service providers (in the context of the audit they have been engaged to perform) are authorised to:
 - have full, free, and unrestricted access to all AT functions, premises, assets, personnel, records, and other documentation and information necessary to enable Internal Audit to fulfil the scope of its audit role.
 - allocate resources, set frequency, select subject, determine scopes of work, and apply the techniques required to accomplish approved audit objectives.
 - Obtain necessary assistance of AT staff to perform their duties.

2.2 Confidentiality

- All records, documentation and information accessed while undertaking internal audit work are to be used solely for the conduct of these activities.
- Internal Audit staff and service providers are responsible and accountable for maintaining the confidentiality of the information they receive during their work.



3.1 Independence

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- Independence is essential to the effectiveness of internal auditing. All Internal Audit staff and service providers report to the EGM Risk & Assurance and the EGM Risk & Assurance reports administratively (i.e., day to day operations) to the Chief Executive and functionally to the Finance and Assurance Committee with right of direct access to the Board Chair.

Administrative reporting to the Chief Executive means the Chief Executive will:

- Ensure that Internal Audit resources (such as budget, human resources, office accommodation, computers, and equipment) are adequate.
- Provide support to access information and ensure the cooperation of AT staff.
- Facilitate the performance evaluation, appointment, renewal, or removal of the EGM Risk & Assurance with the approval of the Finance and Assurance Committee.
- Determine the annual compensation and salary adjustment of the EGM Risk & Assurance with the approval of the People and Culture Committee; and
- Raise matters with the FAC where there is disagreement between internal audit and management on internal audit matters

Functional reporting to the FAC means the Committee will:

- review, provide comments and endorse the Internal Audit Charter and the Internal Audit Plan prior to recommendation to the Board for approval.
- review, provide comment and accept reports from the Internal Audit function on the progress of internal audit activities or other matters that the EGM Risk & Assurance determines are necessary, including closed meetings with the EGM Risk & Assurance without management present.
- assess the performance of the Internal Audit function.
- review and approve (along with the board chair and the chair of the People and Culture Committee) recommendations from the Chief Executive regarding the appointment or removal of the EGM Risk & Assurance.
- make appropriate inquiries of management and the EGM Risk & Assurance to determine whether there is audit scope or budgetary limitations that impede the ability of the internal audit activity to execute its responsibilities.



This dual reporting relationship supports internal audit's independence from business activities and assists in avoiding any conflict of interest, inherent bias or undue external influence.

- Where service providers are used, a conflict-of-interest declaration and a non-disclosure agreement (for confidentiality) will be requested in relation to each audit undertaken.
- The EGM Risk & Assurance will confirm to the Finance and Assurance Committee, at least annually the organisational independence of the internal audit activity. To support this declaration, the EGM Risk & Assurance and internal audit staff will complete annual declarations outlining:
 - Adherence to AT's values and Code of Conduct.
 - Conformance with the IIA Standards and Code of Ethics; and
 - Any potential perceived or actual conflicts of interest and how they have been managed.



3.2 Objectivity

- Internal Audit has no direct authority or responsibility for the activities it reviews. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.
- Internal Audit staff or service providers must have an impartial, unbiased attitude and avoid any conflict of interest whether actual or perceived.

3.3 Chief Audit Executive responsibilities outside internal audit

- The EGM Risk and Assurance has responsibilities that fall outside of Internal Audit. These include risk management, business continuity planning, compliance monitoring, policy development oversight, conflicts of interest, fraud policy, probity and legal services. These other services are directed through their own frameworks and methodologies.
- To mitigate impairments to independence and objectivity for these responsibilities the following safeguards have been put in place:
 - It is acknowledged and understood that when managing functions or performing activities outside internal audit, the EGM Risk & Assurance will not be acting in the capacity of Chief Audit Executive; and
 - Any internal audit review of the non-audit functions that the EGM Risk & Assurance is responsible for will be managed and performed independently of the EGM Risk & Assurance. These reviews will be sponsored by the Chief Executive and reported directly to the Finance and Assurance Committee.

4.1 Nature and scope of work

- The scope of Internal Audit work shall include:
 - Assurance Services – objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for AT.
 - Consulting Services – advisory and related client service activities, the nature and scope of which are agreed upon with management and which are intended to add value and improve AT’s governance, risk management and control processes.
- The scope and coverage of Internal Audit work is not limited in any way and may cover any of the operations, programs, activities, systems and processes of AT.

4.2 Internal audit resourcing

- The internal audit function is operated in-house within AT. However, internal audit work may be co-sourced or outsourced to external service providers where:
 - The Internal Audit function lacks the proficiency, knowledge, skill, or other competencies needed to perform all or part of an engagement in line with the standards.
 - where any real or perceived conflict of interest may arise in the conduct of the engagement by the Internal Audit function.
 - where the Internal Audit function lacks the capacity to deliver the Internal Audit Plan approved by the Board within reasonable timeframes as agreed with the Finance and Assurance Committee; or
 - as otherwise requested by the Board, Finance and Assurance Committee and/or Chief Executive.
- For an engagement to be considered Internal Audit work, the appointment, coordination, oversight, and quality assurance of engagements performed by external service providers, must be managed by the Internal Audit function. The conduct of such engagements must comply with this Internal Audit Charter.

5.1 Risk based internal audit plan and an assurance map

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- The EGM Risk & Assurance will develop a risk based internal audit plan that considers:
 - AT's strategy, objectives and key strategic and operational risks.
 - risk or control concerns identified by management.
 - legislative and regulatory requirements.
 - other assurance coverage over key risks; and
 - requests by management, the Finance and Assurance Committee and Board.
- The Internal Audit Plan will be reviewed and endorsed by the Finance and Assurance Committee prior to recommendation to the AT Board for approval.
- The EGM Risk & Assurance, with the approval of the Finance and Assurance Committee may make changes to the Internal Audit Plan where it is deemed appropriate to do so.
- The EGM Risk & Assurance will develop and/or maintain an Assurance Map built around AT's 3 Lines of Assurance:
 - First Line – this is operational management who are responsible for taking and managing the organisations risks within risk appetite. They should be able to demonstrate that risks are appropriately managed and that objectives will be achieved. The first line is the principal source of (non-independent) assurance.
 - Second line – these are specialist risk functions at AT that:
 - Provide complementary expertise, support, monitoring, and challenge related to the management of risk, including:
 - ❑ The development, implementation, and continuous improvement of risk management practices (including internal control) at a process, systems, and entity level.
 - ❑ The achievement of risk management objectives, such as: compliance with laws, regulations, and acceptable ethical behaviour; internal control; information and technology security; sustainability; and quality assurance.
 - Provide analysis and reports on the adequacy and effectiveness of risk management (including internal control).
 - Third line – this is the internal audit function which provides independent assurance to management and the Board on the adequacy and effectiveness of AT's governance, risk management and internal control systems.
- The Assurance Map will assist Internal Audit to better understand the overall assurance environment when developing the Internal Audit Plan and to formulate a plan that better targets areas where greater assurance may be required. It can also reduce duplication of assurance activities.



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5.2 Internal Audit Engagements

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- Before an internal audit engagement commences, a terms of reference document will be prepared, which will be agreed with the relevant Executive General Manager and signed off as their agreement with the scope of services to be provided by the Internal Audit function.
- Internal Audit will evaluate the effectiveness and contribute to the improvement of governance, risk management and control processes using a systematic, disciplined and risk-based approach that promotes continuous improvement.
- At the conclusion of each internal audit engagement, a written report will be issued by the Internal Audit function to relevant stakeholders, such as Executive General Managers, the Chief Executive, as well as to the Finance and Assurance Committee.
- Internal audit reports will include management's response and corrective actions taken or to be taken regarding specific findings and recommendations, including a timetable for completion.
- Management will generally be expected to respond to draft audit reports within 10 working days from receipt.
- If management's response to any finding is not considered adequate, or where management seeks to accept a risk that may be outside AT's risk appetite, Internal Audit will consult with management of the function being reviewed and seek to reach a mutually agreeable resolution. If an agreement is not reached, the EGM Risk & Assurance will escalate the matter through relevant channels to appropriate levels of management, including the Chief Executive, Executive Leadership Team, and the Finance and Assurance Committee if required.

5.3 Working with management

- When conducting internal audit engagements Internal Audit will:
 - work constructively with management to improve the organisation;
 - be respectful of the people we audit, understand they have their jobs to do, and avoid peak business periods where we reasonably can;
 - maintain effective communication throughout the audit so that management is not surprised and caught off-guard by significant observations raised during the wrap-up and reporting stage of the audit;
 - deliver the internal audit report on the date we promised and ensure it is insightful, proactive and future-focused;
 - give credit where it is due and not just focus on the negative.
 - work with management to achieve the best improvement actions to remediate risks and actively follow-up and support management as they implement improvement actions.



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5.4 Implementation of Audit Recommendations

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- AT management is responsible for confirming the implementation of agreed Internal Audit and External Audit recommendations, as well as recommendations contained in reports by other external and regulatory bodies.
- Internal Audit will establish a system to facilitate monitoring of progress by management and will validate management's assertions before closure of issues.

5.5 Reporting

- Internal Audit will report to the Finance and Assurance Committee on:
 - internal audit work completed and progress of implementing the Internal Audit plan.
 - progress of implementation of internal and external audit recommendations, and recommendations arising from other reviews, where necessary.
 - achievements, via its annual report, to summarise work and achievements for the year to demonstrate value delivered, and to provide an opinion on the overall state of internal controls and any systemic issues identified.
 - annual assertion on the work of the Internal Audit function and compliance with the Standards; and
 - any other matters it deems necessary.
- Internal Audit will report periodically to the Executive Leadership Team on matters such as the progress of implementing the Internal Audit Plan, and the progress of implementation of internal and external audit recommendations.

5.6 Relationship with external audit and other assurance providers

- The Internal Audit function will liaise with the external auditors to ensure that internal and external programs, when combined, provide optimal coverage of AT's key risk areas, and to minimise duplication of audit effort.
- Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and facilitate coordination.
- External auditors will have full and free access to all Internal Audit plans, working papers and reports.
- Internal Audit will establish and maintain open relationships with assurance providers in AT's second line.
- Internal Audit will plan its activity to ensure the adequacy of overall assurance coverage and to minimise duplication of assurance effort.



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6.1 Quality assurance and improvement programme

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The EGM Risk & Assurance will develop and maintain a Quality Assurance and Improvement Program that includes:

- Ongoing Internal Assessments including:
 - supervision and review of Internal Audit engagements.
 - collecting feedback from management after each Internal Audit engagement.
 - performance evaluations; and
 - results of Internal Audit performance measures.
- Periodic Internal Assessments to be conducted annually:
 - review of the Internal Audit Charter for conformance with the Standards; and
 - self-assessment of conformance with the Standards.
- External Assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside AT.

6.2 Performance Evaluation

- Internal Audit performance will be evaluated, and the results reported to the Finance and Assurance Committee. This will include:
 - results of the Quality Assurance and Improvement Program.
 - feedback from management of areas where internal audit engagements have been performed; and
 - performance of service providers.
- Feedback on Internal Audit performance will be sought annually from members of the Finance and Assurance Committee.



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7.1 Charter review and approval

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Review of the Internal Audit Charter

- The EGM Risk & Assurance will review this Internal Audit Charter at least every two years, with any changes endorsed by the Finance and Assurance Committee and recommended for approval by the AT Board.

Approved by:

Executive General Manager Risk & Assurance

Date

Auckland Transport Chief Executive

Date

AT Board Chair

Date

