



Guardian of Public Trust

February 4, 2022

BRIEFING NOTE:

Purpose: Action ☒

TO: Chair and Members of Finance & Audit Committee

FROM: Bonnie Riddell, Policy & Research Analyst

SUBJECT: Finance & Audit Policy Revisions

BRIEFING INTENT:

- To align finance & audit policies to the Internal Audit Charter
-

BACKGROUND:

- The Internal Audit Charter (attached) was revised and presented to the Commission for approval in December 2021.

Preliminary Analysis:

Overview:

- Revisions were required to both the FAC Terms of Reference policy & the Risk Management & Audit policy to align with the Internal Audit Charter.
- Changes to both these policies align with new reporting requirements & official title of the internal auditor.

Recommendations:

- 1) The FAC recommends that revisions to both the FAC Terms of Reference & the Risk Management & Audit policy be approved.

(REVISED)

Effective: Nov. 30,2007	Revised: January 22, 2009
Repealed:	October 22, 2009
	January 21, 2010
	May 20, 2010
	March 22, 2012
	September 17, 2015
	February 21, 2019

5.2.3 FINANCE & AUDIT COMMITTEE TERMS OF REFERENCE

MANDATE:

1. The Finance & Audit Committee (Committee) is responsible to assist the Edmonton Police Commission (Commission) in fulfilling its obligations and oversight responsibilities related to - Financial Planning and Reporting; the Audit Process; Internal Controls; and Risk Management. The Committee makes recommendations to the Commission for approval when required.
2. The Committee provides assistance to the Commission, pursuant to the *Police Act and City of Edmonton Bylaw 14040*, to determine estimates of funds required for policing and allocating funds that are provided to the Commission for the Edmonton Police Service (Service) by Edmonton City Council.
3. The Committee assists the Commission in its oversight responsibilities relating to the integrity of the Commission's and Service's financial information, the financial reporting process, and the systems of the internal controls.
4. The Committee also provides oversight over the Audit Function and the overall risk environment for the Commission and the Service to ensure that the Commission's and Service's assets are protected and safeguarded.

DUTIES AND RESPONSIBILITIES OF THE FINANCE & AUDIT COMMITTEE:

Financial Matters:

1. Consult with the Chief of Police on the development of a business plan for the Service that specifies the level of police service and programs to be provided in the

City of Edmonton.

2. Consult with the Commission's Executive Director on the development of an annual business plan for the Commission that will support its joint roles of governance and oversight;
3. Oversee and guide the preparation of long-range financial plans for the Service and the Commission for recommendation to the Commission;
4. Review and recommend operating and capital budget information provided by the Service to the Commission.
5. Review and recommend to the Commission the guiding principles for changes to approved budgets.
6. Review and recommend financial policies to the Commission;
7. Review and recommend signing authorities for expense approvals to the Commission;
8. Review strategic key performance indicators as they relate to financial performance;
9. Review and make recommendations with respect to relevant legislative changes affecting financial resources and significant issues as they relate to the Commission and the Service; and,
10. Participate, with the Service's Senior Management, on formal presentations to the City of Edmonton regarding operating or capital budget requirements for the service.

Internal Controls:

1. Reviews assurance reports that the Service and Commission prepare and have implemented appropriate systems of internal controls for:
 - a. Financial reporting;

- b. Compliance with Commission, Service and City Policies, Procedures (as applicable), Provincial Policing Standards and relevant laws and regulations;
- c. Financial, operational, or corporate risk exposure.

Audit Matters:

1. Engage and serve as the primary contact **for the Director of Audit & Risk (Director)** and report on reviews of all audit engagements.
2. Review and recommend **approval** to the Commission **on the following audit reports:** ~~the Internal Audit Function's audit charter, annual audit plans, strategic plan, and audit resourcing.~~
 - **Internal audit charter (every 3 years, at a minimum)**
 - **Internal audit plan (annual)**
 - **All audit and advisory engagements performed within the Service both internal and external (annually)**
 - **Confirmation of independence of Internal Audit (annual)**
 - **Review adjustments to audit plan (as required)**
 - **Review significant changes in scope of planned engagements (as required)**
 - **Review status of audit recommended implementation (semi-annual)**
 - **Immediately review significant risk exposures and control issues, including fraud risks and governance issues and any threats to auditor independence**
 - **On the conclusion of each engagement review results, including management responses to any findings and recommendations**
3. ~~Review findings of audit and/ or compliance reports,~~ **Review and assess audit recommendations/ including** management's responses, and monitor management's actions to address audit recommendations.
4. Review the **Internal Audit's Function's** conformance with The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing.
5. **Review the Internal Audit's quality assurance and improvement program, including results of internal and external assessments conducted at least once every five years by a qualified, independent assessor from outside the Service.**

6. Meet “in camera” at least three times per year with the ~~Director~~ ~~Audit Function~~ to discuss audit outcomes and initiatives, emerging issues, and ensure that the Audit Function has appropriate resources and supports to fulfill its responsibilities outlined within the audit charter and the scope of the audit work. Review any difficulties encountered in the course of the audit functions work such as impairments to independence, restrictions to people, data, and/or information.
7. **Assist with the dispute resolution process as outlined in the Internal Audit Charter.**

Risk Management:

1. Ensure that the Service has established an enterprise risk management process in which risk identification, risk awareness, risk tolerance and risk mitigation is determined, monitored and reported.
2. Review and assess the effectiveness of the Service’s Integrated Risk Management processes and framework.
3. Review and recommend to the Commission, the Service’s Corporate Risk Profile and subsequent risk mitigation plans.
4. Ensure the Service provides risks identified within the Service’s corporate risk profile and other risk assessments and ensure that the audit plan considers those risks within the annual audit plan
5. Review significant risks affecting the Service’s ability to fulfill its mandate and ensure that appropriate risk mitigation plans have been implemented.

References:

1. *Police Act, RSA 2000, c P-17*
2. *City of Edmonton Bylaw 14040, Edmonton Police Commission Bylaw*
3. *EPC Policy # 1.1.5 – Risk Management & Audit*
4. ***EPC and EPS Internal Audit Charter***

Effective: Nov. 30, 2007	Revised: September 17, 2015 March 21, 2019
Repealed:	

1.1.5 RISK MANGEMENT AND AUDIT

It is the responsibility of the Edmonton Police Commission (Commission) to ensure that the Edmonton Police Service (Service) are effectively managing all significant risks the organization faces.

The Commission also provides the oversight function for all audit functions and overall risk management for the Service to ensure that its assets and reputation are protected and safeguarded within reasonable business limits.

Definitions:

Risk: is the effect of uncertainty on objectives and is a positive or negative deviation from what is expected. In this policy risk refers to all those social, economic, organizational and human elements both within the Service and the community it serves that would affect the achievement of the Service's approved mission, goals, objectives and activities.

Risk Management: refers to a coordinated set of activities and methods used to direct and control the risks that can affect an organization's ability to achieve its objectives and to provide reasonable assurance regarding the achievement of the organization's objectives.

Risk Management Framework: is a set of components that support and sustain risk management throughout an organization.

Risk Management Process: is the process of systematically applying risk management policies, procedures, and practices to a set of activities intended to establish the context, communicate and consult with stakeholders, and identify, analyze, evaluate, treat, monitor, record, report, and review risk.

Risk Profile: is a representation at a given point in time of an organization's overall exposure to some specific risk or group of risks.

Guidelines:

1. The Commission will be the primary oversight for all external and internal auditors.

2. The Commission will integrate risk management into policies, strategic planning and oversight of the Service.
3. The Commission will participate in the annual review of risks based on a scan of community issues and includes advice from the Chief.
4. The Commission will ensure that the Service has established an enterprise risk management (ERM) process in which risk identification, awareness, tolerance and mitigation is determined, monitored and reported.
5. The Commission will review and assess the Service's Integrated Risk Management Framework and processes.
6. The Commission will approve the Service's Corporate Risk Profile (CPR) including the risk appetite and risk tolerance levels for significant risks identified, ensure mitigation strategies are in place, and review annually.
7. The Commission will ensure that the risks identified in the Service's CPR and other risk assessments are considered within the Commission's annual audit plan.
8. The Commission will approve and provide ongoing monitoring of the ~~Commission's Chief Internal Auditor's~~ **Director of Audit & Risk's (Director)** annual audit plan, strategic plan and ensure appropriate resourcing is available.
9. The Service will provide the Commission with regular performance reports of the identified risk mitigation strategies and will include where their assessments have remained at the level identified, or if a raising or lowering of the residual risks have been deemed necessary.
10. The Commission requires that the ~~Chief Internal Auditor~~ **Director** shall provide a risk based audit plan that assesses risks within the organization whose priority merits an audit review.
11. The Commission requires that the Chief of Police and the ~~Chief Internal Auditor~~ **Director** will provide the results of all audits, operational reviews, and compliance reviews. The Chief of Police and ~~Chief Internal Auditor~~ **Director** will highlight any issues that will assist in determining whether the Service and/or Commission is in compliance with related statutory requirements, and issues that have potential risk or liability to the Service and/or Commission.

12. The Commission will provide ongoing monitoring of the actions taken by the Service in addressing unacceptable levels of risk and/or identified weaknesses in internal controls.
13. The Commission will ensure that the Service has implemented appropriate systems of internal controls for financial reporting, compliance with all relevant laws and regulations and financial, operational and corporate risk exposure.
14. The Commission will review any policies for which significant risks have been identified.
15. The Commission will regularly review the processes in place to communicate a consistent message on risk management and associated expectations across the Service.
16. The Commission will review the Service's strategic plans to ensure there are performance measures and key performance indicators (KPI's) in place to monitor high risk areas.
17. The Commission will ensure that all performance evaluations of the Chief address high risk areas that have been identified.
18. The Commission will approve the Internal Audit Charter (Appendix E).
19. The Commission will review at a minimum every 5 years the Internal Audit Quality Assurance and Improvement Program to ensure conformance with the Institute of Internal Auditor's International Standards for the professional practice of internal auditing.
20. During external audits of the Commission all members and staff will respond to record requests and/or inquiries in a timely manner and will work to ensure that the audit's purpose, objectives and scope are met.
21. In addition to all internal audits and related work plans prepared by the Commission and/or the Service, the Commission may request external audits to be conducted on matters of concern to the Commission.

References:

1. *Appendix E – EPC Audit Charter*
2. *5.2.3 Finance and Audit Committee Terms of Reference*



**Edmonton Police Commission and Edmonton Police Service
Internal Audit Charter
May 2021**

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PURPOSE OF THE INTERNAL AUDIT CHARTER

The purpose of the Internal Audit Charter ("Charter") is to define the purpose, responsibilities and authority of Internal Audit. The Charter outlines the nature of the services Internal Audit provides and how these services will help the Edmonton Police Service ("EPS") and the Edmonton Police Commission ("EPC") in achieving their objectives. The Charter establishes the position of Internal Audit within the EPS, including reporting lines, authority and scope of activities. The Charter also addresses the responsibilities of EPS management and the EPC.

INTERNAL AUDIT

Internal Audit is responsible for providing independent and objective assurance and advisory services designed to add value and improve the operations of the EPS. It assists the EPS in achieving its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal controls.

VISION

Trusted business partner for the EPS.

MISSION

Add value to the EPS by identifying opportunities to enhance governance, risk management and internal controls through the provision of risk-based, objective assurance and advisory services.

PROFESSIONALISM

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework (IPPF), 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, and the Definition of Internal Auditing. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

STRUCTURE

Internal Audit holds a duty of care to both the EPC and the EPS. The Director, Audit & Risk ("Director") reports administratively (i.e. day-to-day operations) to the Executive Director, Business Development Division and functionally to the Finance & Audit Committee ("FAC") of the EPC. The Director has free and unrestricted access to the EPC. The Director is also a standing member of Chief's Committee and can leverage a direct reporting line to the Chief of Police as deemed necessary.

AUTHORITY

Internal Audit, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of EPS records, physical properties, and personnel pertinent to carrying out any engagement. All employees of the EPS are requested to assist Internal Audit in fulfilling its roles and responsibilities. Internal Audit may engage specialized services from within or outside the organization to assist in fulfilling its responsibilities.

INDEPENDENCE AND OBJECTIVITY

Internal Audit is part of the Audit and Risk Branch and holds dual responsibilities in the areas of internal audit and risk management. The Director will ensure the integrity and independence of Internal Audit and mitigate any conflicts that may arise from the risk management role. If the Director determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the Executive Director, Business Development Division, the Chief of Police and the EPC.

Internal Audit will remain free from interference by any element in the EPS, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal Audit will have no direct operational responsibility or authority over any of the areas audited. Accordingly, Internal Audit will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment.

Internal Audit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Audit will make a balanced assessment of all relevant circumstances and not be unduly influenced by their own interests or by others in forming opinions on engagements.

If the functions of the Audit and Risk Branch require an internal audit, those services will be contracted to a third party.

The Director will confirm to the EPC, at least annually, the independence of Internal Audit.

INTERNAL AUDIT PLAN

At least annually, the Director will submit an internal audit plan for review by the Chief of Police and the EPC, to be ultimately approved by the EPC. The Director will communicate the impact of resource limitations on development of the plan.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input from the EPS and the EPC. The Director will adjust the internal audit plan, as necessary, in response to changes in EPS' risks, operations, programs, systems, and controls. Any significant deviation from the approved audit plan will be communicated to the Chief of Police and the EPC through periodic audit reporting.

Both EPC and EPS recognize that from time to time last minute emergency audits or investigations may arise that were not initially included in the audit plan. The audit plan will be modified as necessary, and in a timely manner, to allow for inclusion of an emergency audit or investigation as needed by EPC or EPS.

INTERNAL AUDIT RESPONSIBILITY

The scope of internal audit activities encompasses, but is not limited to, the evaluation of the adequacy and effectiveness of EPS's governance, risk management and internal controls for the

purpose of providing independent assessments to the EPC, Chief of Police, and, where approved by the EPC, outside parties. Internal Audit is responsible for:

- Commencing engagements with clearly written terms of reference setting out the scope of the engagement, the resources required, the access to information required, etc.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Assessing the systems established to ensure compliance with policies, procedures, legislation and regulations which could have a significant impact on the EPS.
- Evaluating the means of safeguarding assets, and as appropriate, verifying the existence of assets.
- Reviewing operations or programs to ascertain whether results are consistent with stated objectives and whether operations or programs are being carried out effectively and efficiently.
- Assessment of the effectiveness of governance processes.
- Discussing engagement findings with management as the engagement progresses and soliciting responses from management to any recommendations at the conclusion of the engagement.
- Following up with management on engagement findings and recommendations semi-annually, at a minimum.
- Externally sourcing specialized resources in cases where Internal Audit does not possess the necessary expertise.
- Monitoring the execution of engagements performed by external auditors engaged by the EPS, including examination of their scope of work to ensure optimal audit coverage for the EPS.
- Performing proactive advisory engagements to provide the EPS with risk management and internal control recommendations when embarking on a new initiative or project.
- Evaluating specific operations at the request of the EPC or the EPS as appropriate.
- As directed by the Chief of Police, exercise the 'right to audit' clause on behalf of EPS in any contracts or agreements. If direction to conduct a 'right to audit' impairs the ability to focus on the primary mandate, the Director will discuss options with the Chief of Police and if a resolution is unable to be found, refer the matter to EPC.
- Reporting to the EPS and the EPC as outlined in the Reporting section below.

Given the responsibilities of the Audit and Risk Branch include coordination of enterprise risk management activities, engagements to evaluate the effectiveness of these processes will be contracted to a third party as deemed necessary. Internal Audit can however assess the effectiveness

of risk management at an operational level across the EPS (i.e. day-to-day management of risk within the branches/bureaus of the EPS).

EPS MANAGEMENT RESPONSIBILITY

EPS management is ultimately responsible for implementing adequate and effective risk management, quality management, internal controls, and governance processes that provide reasonable assurance of:

- Achievement of EPS' strategic objectives.
- Reliability and integrity of financial and operational information.
- Compliance with policies, procedures, standards, laws, regulations, and contracts.
- Safeguarding of assets.
- Effective and efficient stewardship of resources, operations, and programs.

EPS is also responsible for sharing feedback on the performance of the Director to the EPC as deemed necessary.

EPC RESPONSIBILITY

To ensure that Internal Audit has sufficient authority to fulfill its duties, the EPC will:

- Approve the Internal Audit Charter every three years or earlier, if necessary.
- In collaboration with the Chief of Police, approve the risk-based internal audit plan.
- Receive communications from the Director on Internal Audit's performance relative to its plan and other matters.
- In consultation with the EPS, participate in discussions about, and ultimately approve decisions regarding the appointment and removal of the Director.
- Make appropriate inquiries of management and the Director to determine if inappropriate scope or resource limitations exist.
- Provide feedback on the performance of the Director to the Director, the Executive Director of the Business Development Division or the Chief of Police as appropriate.

REPORTING

Details on reporting and associated frequency to be provided by the Director to the Chief of Police and the EPC is included below.

Report Details	Frequency
Risk-based internal audit plan, including sufficiency of resources	Annual
Summary of all audit and advisory engagements performed within the EPS (internal and external)	
Confirmation of independence of Internal Audit	
Significant adjustments to the audit plan	Quarterly

Significant changes in the scope of planned engagements	
Status of Internal Audit's performance relative to the plan	
Status of audit recommendation implementation	Semi-annual
Significant risk exposures and control issues, including fraud risks and governance issues	Immediately upon identification
Threats to auditor independence	
Audit engagement results, including management responses to any findings and recommendations	On conclusion of each engagement
Internal audit charter	Every 3 years, at a minimum

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

In the spirit of continuous improvement, Internal Audit will continually evaluate and report on conformance with the IPPF and whether internal auditors apply the Institute of Internal Auditors' Code of Ethics. Internal Audit will also assess the efficiency and effectiveness of the function and identify opportunities for improvement.

The Director will communicate to the Chief of Police and the EPC on Internal Audit's quality assurance and improvement program, including results of internal assessments and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the EPS.

Director, Audit & Risk, EPS

Date

Chief of Police, EPS

Date

Chair, EPC FAC

Date

APPENDIX A – DISPUTE RESOLUTION PROCESS

In general, the Director has unrestricted access to, and can communicate and interact directly with EPC, including in private meetings, without EPS staff present, as required.

In the event the Director and EPS have a disagreement regarding Internal Audit's mandate, scope, approach or recommendations, the following dispute resolution protocol will be applied:

- Significant disagreements between the Director and either an Executive Director, Deputy Chief or another Director, will be escalated to the Chief of Police (or delegate) for guidance and resolution. Both parties will report the matter and resolution at an upcoming EPC meeting. The matter may be discussed at an in-camera meeting.
- In the event the matter cannot be resolved by the Chief of Police (or delegate), the issue will be reported to the FAC of the EPC for guidance and resolution. The matter may be discussed at an in-camera meeting.
- Unresolved disagreements at FAC will be referred to an in-camera meeting of EPC for resolution and direction.



EDMONTON POLICE SERVICE

REPORT TO THE EDMONTON POLICE COMMISSION

DATE: November 30, 2021

SUBJECT: Update to Internal Audit Charter Reporting Frequency

RECOMMENDATION(S):

That the Edmonton Police Commission (EPC) approve removal of the quarterly status reporting requirement in the Internal Audit Charter and approve the addition of communicating significant changes to the audit plan to the EPC on an as required basis.

INTRODUCTION:

In June 2021, the EPC approved the Internal Audit Charter which contained a requirement for the Audit and Risk Branch to report on the following quarterly:

- Significant adjustments to the audit plan
- Significant changes in the scope of planned engagements
- Status of Internal Audit's performance relative to the plan

BACKGROUND:

This reporting frequency was added to the charter because the Director of Audit and Risk believed this was what the EPC had requested during the May meeting when the 2021-2023 audit plan was presented. Based on a review of the meeting minutes, this is not what was communicated by the EPC. At that time, Commission requested a status update on the plan in September 2021 at which time the Commission would determine ad-hoc reporting going forward.

Additionally, the Audit & Risk Branch do not feel like quarterly reporting will add much value to the Commission. The Commission receive several reports from the branch including an annual report on the plan for the upcoming year and a summary of all audit and advisory engagements completed within the last year. We feel that communicating significant changes to the plan during the year on an as needed basis would be more efficient rather than reporting quarterly when things may not change much from quarter to quarter.

COMMENTS/ DISCUSSION:

If this decision is approved, the changes to the Reporting section of the Internal Audit Charter would be as follows:

Report Details	Frequency
Risk-based internal audit plan, including sufficiency of resources Summary of all audit and advisory engagements performed within the EPS (internal and external) Confirmation of independence of Internal Audit	Annual
Significant adjustments to the audit plan Significant changes in the scope of planned engagements Status of Internal Audit's performance relative to the plan	Quarterly As required
Status of audit recommendation implementation	Semi-annual
Significant risk exposures and control issues, including fraud risks and governance issues Threats to auditor independence	Immediately upon identification
Audit engagement results, including management responses to any findings and recommendations	On conclusion of each engagement
Internal audit charter	Every 3 years, at a minimum

CONCLUSION:

If approved, the above change to reporting frequency will be reflected in the next update to the Internal Audit Charter in June 2024.

Written By: Louise Fitzpatrick, Director – Audit & Risk *Lf.*

Approved By: Robert Davidson, Executive Director – Business Development *RD*

Approved By: Al Murphy, Deputy Chief – Corporate Services *Am*

Chief of Police: *[Signature]*  *Ron Anderson*
Dale McFee Chief Innovation & Technology Officer

Date: *Dec 1/2021*