

Internal Audit Charter

June, 2016

INTRODUCTION

Interior Health's Board of Directors established the Internal Audit function in 2003 as an organizational asset. This document sets out the mandate, authority and responsibilities of the Internal Audit and Advisory Services Department or "Internal Audit".

VISION, MISSION AND PURPOSE

Vision: To transform the internal audit experience and deliver value across Interior Health.

Mission: We will serve with independence and integrity to provide objective, assurance and consulting services for both business and clinical systems to confirm that processes and programs are performing as intended, provide insight as to opportunities for continuous improvement, and assist Interior Health in achieving its mission to the highest professional standards.

The purpose of Internal Audit's work is to determine whether Interior Health's risk management, control processes and governance policies are adequate and functioning in a manner to ensure:

- ✓ Interior Health's mission and objectives are achieved;
- ✓ enterprise-wide risks are appropriately identified and managed;
- ✓ significant financial, management and operational information is accurate, reliable and timely; and,
- ✓ resources are acquired economically, used efficiently and adequately protected in accordance with the B.C. Taxpayer Accountability Principles.

SCOPE OF ACTIVITY

Internal Audit's scope includes all activities and areas of operations, including those which support the delivery of patient care and safety processes to the extent that these areas are not adequately monitored by other internal and external processes (i.e. Accreditation Canada, Diagnostic Accreditation Program, etc.).

The Corporate Director, Internal Audit shall prioritize audits and allocate Department resources based on assessed levels of financial, operational, reporting, compliance and reputation risks.

Consulting services may be provided by Internal Audit (i.e. consulting with Management on business plan development); however, such non-audit services shall not interfere with the completion of Internal Audit's committed annual projects. If consulting services are deemed critical to assist the area to meet their objectives, the Corporate Director, Internal Audit shall seek approval from the Chief Executive Officer (CEO) prior to commencement.

AUTHORITY

To fulfill the role and functions of the Department, subject to any legal limitations, Internal Audit is authorized by the Board of Directors and the CEO, to have full, free and unrestricted access at reasonable and mutually convenient times to:

- all Interior Health facilities and facilities under contract or partnership subject to the agreement governing the facility; and,
- all Interior Health functions, records, property and personnel as necessary to perform the audit work.

Internal Audit is accountable to ensure the confidentiality and safeguarding of any information accessed in the course of their work as documented in Internal Audit's Privacy and Confidentiality Policy. All information accessed by Internal Audit will be used strictly for audit purposes. For any case where access to information is restricted or not provided, the matter will be brought forward to the CEO for resolution.

INDEPENDENCE

Internal Audit is a Department under the direction of the Corporate Director, Internal Audit. In the performance of his/her assigned duties, the Director will have a direct reporting relationship with, and unfettered access to, the CEO and the Board of Directors through the Audit and Finance Committee. The Department will be part of CEO's organizational structure for accommodation, staff support, administrative needs and budget accountability.

To comply with the Board's External Auditor Independence Policy 3.10, an individual who was employed by the External Auditors and who participated in the year-end financial audit within the last twelve months will not be hired by Interior Health to fill a senior Internal Audit position.

The Internal Audit team shall hold themselves independent of the activities they audit and will not assume implementation or operating responsibilities. Internal Audit may perform other non-audit functions, consistent with other provision of this Charter, and submit such other reports as may be assigned by the organization or external parties.

Members of the Internal Audit team have a duty to report to the Corporate Director, Internal Audit any situations in which a personal conflict of interest or bias is present or may be reasonably inferred. The Corporate Director, Internal Audit will confirm to the Board, at least annually, the organizational independence of the Department.

INTERNAL AUDIT RESPONSIBILITIES

Internal Audit's responsibilities are defined by the Board as part of their oversight role.

In the organization and management of Internal Audit, the Corporate Director will:

- ✓ establish the policies and procedures necessary to guide the Department;
- ✓ monitor corporate activities and developments to ensure audit work focuses on areas of high risk, strategic importance and priority;
- ✓ develop a rolling audit plan for evaluating the audit universe, including a budget and staffing resources plan, and have this plan reviewed and recommended to the Board for approval annually through the CEO and the Audit and Finance Committee; ensure the audit plan is coordinated with external auditors to assure completeness of coverage, minimize redundant efforts, and use available resources effectively;
- ✓ implement the approved audit plan;
- ✓ follow-up on all risk exposures and control/performance issues identified and the implementation of remedial actions;
- ✓ retain the prerogative of establishing the audit techniques and the right of reporting to the Senior Executives when the nature and materiality of results pose significant risks to the organization;
- ✓ share information and co-ordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts;
- ✓ maintain functional relationships with individual members of the Senior Executive Team, department directors and managers;
- ✓ maintain appropriate relationships with the external financial auditor, the Office of the Auditor General of BC and the BC Government Internal Audit and Advisory Services Branch;
- ✓ review any external financial audit management letters prior to submission to the Audit and Finance Committee;
- ✓ function as Interior Health's designated central point of contact to receive reports of alleged wrongdoings, conduct merit assessments and take appropriate actions as outlined in the Board's Safe Reporting Policy 3.15; and,
- ✓ function as Interior Health's designated representative to investigate any ethical or legal breaches identified under the Proponent Complaint Resolution Policy or any formal complaints filed under the Agreement on Internal Trade or other fair business issues brought to Interior Health's attention by the Government of BC.

As a service and advisory function, Internal Audit has no direct authority for the operational and strategic activities of Interior Health. The assurance services performed are of an advisory and support nature only, and do not relieve management, staff, or directors of their responsibilities.

BOARD RESPONSIBILITIES

The Audit and Finance Committee, on behalf of the Board, will oversee the Internal Audit function and the relationship with the auditor and with management through:

- ✓ reviewing the organization and independence of Internal Audit and any restrictions or problems;
- ✓ review and recommend to the Board any changes to the Internal Audit Charter
- ✓ review and recommend to the Board the Annual Internal Rolling Project Plan including goals, staffing and budget;
- ✓ monitoring the department's performance relative to its plan;
- ✓ receiving status updates on previous recommendations;
- ✓ at least once a year, with the CEO, reviewing the performance of the Corporate Director, Internal Audit; and
- ✓ reviewing and concurring with the appointment, replacement, or dismissal of the Corporate Director, Internal Audit.

The Board will meet periodically with the Corporate Director, Internal Audit, without management present, as needed at the call of either the Board or the Corporate Director, and at least once a year.

MANAGEMENT RESPONSIBILITIES

Management is responsible for the following:

- ✓ establishing a system of internal controls that provides the Board of Directors with reasonable assurance of:
 - the adequacy, reliability and integrity of financial and operating information;
 - compliance with policies and procedures, laws and regulations;
 - safeguarding of assets;
 - economical and efficient use of resources; and,
 - the achievement of goals and objectives;
- ✓ keeping Internal Audit informed of requests by third parties (e.g. Government) to undertake audits and/or reviews of IH services, operations, etc. In addition, Internal Audit is to receive a copy of all audit correspondence issued upon completion of each third party review;
- ✓ notifying Internal Audit when fraud, defalcation or violation of laws and regulations is suspected; and,
- ✓ ensuring appropriate timely actions are taken to address recommendations presented in Internal Audit's reports.

AUDIT PLANNING

The rolling audit plan will include projects in IH's audit universe and will be prioritized based on an assessment of risk pertaining to the achievement of the organization's objectives.

In assessing the degree of risk the following factors will be considered:

- ✓ materiality – measured in terms of flow of funds and asset holdings;

- ✓ significance of the area in terms of the organization's goals;
- ✓ assessed effectiveness of controls in the manual and computerized systems;
- ✓ importance in terms of sensitivity and public accountability; and,
- ✓ coverage, timing and findings of the previous external and internal audit reviews and reports prepared by consultants.

When formulating audit plans Internal Audit will consult with:

- ✓ Senior Management and other relevant managers;
- ✓ Audit and Finance Committee and other Board Committees as appropriate; and,
- ✓ external auditors.

The audit plan will be sufficiently comprehensive to ensure proper audit coverage of Interior Health's activities on a risk-exposure basis and has flexibility to accommodate projects requested by the Senior Executive Team and the Board of Directors.

AUDIT REPORTING

Internal Audit will report on a bi-monthly basis to the CEO and the Audit and Finance Committee on its performance relative to the Audit Plan and appear before the Audit and Finance Committee at each of their scheduled meetings or as otherwise directed.

At the conclusion of each audit engagement, a detailed written report will be prepared and issued by the Corporate Director, Internal Audit. The report will include management's response and corrective action to be taken on the recommendations. In the event that an agreement on the recommendations cannot be reached with Management, the matter will be referred to their respective Vice President or if necessary, the CEO. Should the disagreement not be resolved, the audit report will include a clear statement of both Internal Audit's and Management's positions.

Significant findings will be reported promptly to the CEO and the relevant Board Committee.

Internal Audit will be responsible for appropriate follow-up of engagement findings and recommendations until successful resolution.

Internal Audit will prepare and distribute an annual report including a summary of projects undertaken during the year and an overall opinion on controls.

PROFESSIONAL STANDARDS

The internal audit activity will govern itself with reference to the Institute of Internal Auditors Definition of Internal Auditing, the Code of Ethics and the mandatory *Standards*.

Internal Audit will conduct its activities and reach conclusions in accordance with this Charter, professional standards, appropriate Canadian legislation and regulations, Interior Health policies and best practices from industry peers wherein such guidance is consistent with its mandate as defined by the

Board. However, where the Board has determined that specific items are outside the scope of Interior Health Internal Audit services, the effectiveness of the audit activity will be measured against the Board-defined scope.

Professional standards include:

- ✓ The Institute of Internal Auditors – International Professional Practices Framework, the Definition of Internal Auditing and the Code of Ethics;
- ✓ Information Systems and Control Association – Statement of Information Systems Auditing Standards
- ✓ Chartered Professional Accountants of Canada; and,
- ✓ Applicable code(s) of conduct for individuals with professional designations or accreditations.

QUALITY ASSURANCE PROGRAM

The Corporate Director, Internal Audit will maintain a quality assurance program to evaluate the operations of Internal Audit. The Corporate Director will communicate to the CEO and Board on Internal Audit's quality assurance and improvement program including the results of internal and external assessments in the Annual Audit Report.

Original Version 1.0, May 2003

Version 2.0, July 2008

Version 2.1, July 2011

Version 3.0, September 2013

Version 3.1, May, 2014

Version 3.2, September, 2014

Version 3.3 June 2016