

Bank of Canada

Internal Audit Charter

Internal Audit's Vision, Mission and Purpose

The Audit Department (or "Internal Audit") is comprised of competent professionals who perform their work in conformance with the Institute of Internal Auditors' (IIA) [Global Internal Audit Standards](#) aligned to a common vision, mission and purpose, as follows:

VISION: To be a leading internal audit team – trusted, dynamic, and engaged.

MISSION: Trusted assurance providers and advisors who support the Bank of Canada ("Bank") in:

- Achieving its strategic objectives;
- Maintaining effective governance, risk management, and control processes;
- Decision-making and oversight;
- Upholding its reputation and credibility with key stakeholders; and
- Serving the public interest and delivering on its promise to Canadians.

PURPOSE: Provide value-adding, independent, risk-based assurance, advice, insight and foresight to support the effective management of the Bank and oversight by the Board of Directors.

Mandate and Scope of Activities

The Department's mandate is to provide the Board and senior management with objective assurance, advice, insight, and foresight. The scope of these services includes evaluating governance, risk management and control processes designed by management to ensure:

- risks to the achievement of Bank objectives are identified, assessed, mitigated, and monitored;
- data and information used for analysis, decision making, and/or publication is reliable, available and protected;
- resources and assets (including client valuables) are acquired economically, used efficiently and sustainably, and are safeguarded from losses;
- operations or programs are being carried out effectively and efficiently, and their results are consistent with established goals and objectives;
- Bank policies, standards, and procedures, and applicable laws and regulations, are complied with; and
- strong ethics and values are promoted within the Bank.

The nature and scope of advisory services are agreed with the client, provided the Audit Department does not assume management responsibility and independence is maintained.

Authority

To fulfill their mandate, the Chief Internal Auditor and Audit Department staff are authorized to:

- have full and unrestricted access to all functions, personnel, properties, records (including data and technology platforms) of the Bank and its service providers needed to accomplish internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information;
- have full and free access to senior management, including observer status at

management committee and Audit and Finance Committee meetings. At every meeting of the Audit and Finance Committee, the Chief Internal Auditor will have a private session with its members;

- allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives; and,
- obtain the necessary assistance of staff in business areas where audits are performed, as well as other specialized services from within or outside of the organization.

In the context of this Charter, all Bank managers and staff are expected to work cooperatively with the Audit Department.

Managing the Internal Audit Function

The Chief Internal Auditor has the responsibility to:

- Establish methodologies to guide the Audit Department, maintain a quality assurance and improvement program and determine performance measures to assess the Audit Department's progress toward achieving its objectives.
- Maintain an audit staff with sufficient knowledge, skills, experience, and professional accreditation needed to meet the requirements of the Global Internal Audit Standards and the internal audit mandate.
- Prepare and execute an annual risk-based audit plan. Provide the draft audit plan to the Office of the Governor for comment and to the Audit and Finance Committee for approval.
- Review and adjust the audit plan, as necessary, in response to significant changes to business, risks, operations, programs, systems or controls. Present all significant audit plan changes to the Audit and Finance Committee for approval.
- Ensure internal audit engagements are adequately resources and supervised, and are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Ensure management has identified adequate actions in response to audit findings. Follow up with management on corrective actions to ensure timely and complete remediation, investigate instances of delayed actions, any corrective actions not effectively implemented or where risk acceptance may be above the Bank's risk appetite.
- Assess and report on the Audit Department's conformance with the Global Internal Audit Standards and established methodologies. Conformance is assessed through the quality assurance and improvement program that includes annual internal assessments, and an external assessment conducted at least every 5 years by a qualified independent assessor.
- Coordinate with, and consider the work of, the Bank's external auditors, other control and monitoring functions (such as risk management, security, and legal), and the auditors of the Bank's external service providers to ensure adequate audit coverage, without duplication.
- Provide periodic updates to senior management and the Audit and Finance Committee on:
 - progress on completing the annual audit plan;
 - results of assurance and advisory engagements including conclusions on the appropriateness and effectiveness of controls, significant risk exposures or control issues;
 - progress on completing management action plans in response to audit findings;
 - progress on the Audit Department's quality assurance activities, internal improvements, and conformance with Global Internal Audit Standards; and
 - the sufficiency of Audit Department human and financial resources.
- Identify and communicate trends and emerging issues that could impact the Bank to senior management and the Audit and Finance Committee, as appropriate, and consider emerging trends and successful practices in internal auditing.

Independence

To provide for the independence of internal auditing, the Chief Internal Auditor reports functionally to the Audit and Finance Committee of the Board of Directors and administratively to the Chief Operating Officer, as delegated by the Office of the Governor. This positioning provides the organizational authority and status to bring matters to senior management and escalate matters to the Board without interference while maintaining objectivity.

To help maintain objectivity and to avoid conflicts of interest, the Chief Internal Auditor and Audit Department staff are not authorized to:

- aside from Audit department operations, design or implement internal controls, develop procedures, implement systems, prepare records, or engage in any other activity that may impair their judgment;
- perform any operational or administrative duties external to the Audit Department that would, or potentially could, be subject to internal audit examination;
- assess specific operations for which they had responsibility within the previous year;
- initiate or approve accounting transactions external to the Audit Department; and,
- direct the activities of any Bank employee (outside of the Audit Department), except to the extent that such employees have been assigned to auditing teams or to otherwise assist the internal auditors.

Management is assumed to be solely accountable over the design and implementation of internal controls and related processes, within their respective business lines.

Where the Chief Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance. Internal auditors will:

- disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Chief Internal Auditor, or the Audit and Finance Committee;
- 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; and
- take necessary precautions to avoid conflicts of interest, bias, and undue influence.

At least annually, the Chief Internal Auditor will re-confirm the organizational independence of the Audit Department, and the ongoing appropriateness of the administrative reporting relationship to the Chief Operating Officer will be re-assessed by the Audit and Finance Committee. The Chief Internal Auditor will disclose to the Audit and Finance Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. In addition, the Chief Internal Audit may escalate any significant issues to the Audit and Finance Committee through scheduled or ad-hoc in-camera sessions.

Actions will be taken to preserve independence and objectivity; however, if impaired in fact or appearance, the details of the impairment will be disclosed along with implications of such interference on the Audit Department's effectiveness or ability to fulfill its mandate.

Ethics and Professionalism

The Chief Internal Auditor will ensure that internal auditors:

- conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- understand, respect, meet, and contribute to the legitimate and ethical expectations of the Bank and are able to recognize conduct that is contrary to those expectations;
- encourage and promote an ethics-based culture in the Bank; and,
- report known or suspected instances of fraud or organizational behavior that is inconsistent with the Bank's ethical expectations.

Members of the Audit Department must also comply with the Bank's Code of Business Conduct and Ethics, and the Oath of Fidelity and Secrecy, and equivalent codes of the other professional organizations to which they belong.

Commitment to Adhering to the Global Internal Audit Standards

The Audit Department will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The Audit Department will also adhere to relevant standards promulgated by other professional organizations and regulatory bodies.

Support from the Office of the Governor and Board Oversight

In the context of this Charter, the Chief Operating Officer, as delegated by the Office of the Governor, is responsible for

- supporting the Audit Department fully in carrying out its responsibilities;
- maintaining practices and establishing processes to promptly inform the Chief Internal Auditor of known or suspected cases of fraud or other irregularities; and,
- involving the Audit and Finance Committee in evaluating the work of the Audit Department, including the performance and remuneration of the Chief Internal Auditor, and in appointing or removing the Chief Internal Auditor.

The Audit and Finance Committee is responsible for oversight of the Internal Audit function. This includes reviewing and approving the annual audit plan, reviewing internal audit reporting and the effectiveness and independence of the function, meeting with Chief Auditor as well as ensuring adequacy of resourcing. The [Audit and Finance Committee Terms of Reference](#) fully describes their authority regarding oversight of the Internal Audit function.

Changes to Mandate and Charter

In the absence of substantial changes to the Audit Department, Global Internal Audit Standards or the Bank, the Internal Audit Charter will be reviewed and approved by the Audit and Finance Committee on a triennial basis.

Approved by the Audit and Finance Committee of the Board of Directors on May 22, 2024.

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Managing Director and Chief Internal Auditor