

Bank of Canada

Internal Audit Charter

Mission and Purpose

The Audit Department is an independent, objective assurance and advisory function that supports management and the Board of Directors in the effective discharge of their responsibilities. The Audit Department protects organizational value by bringing a systematic disciplined approach to evaluating the effectiveness of the Bank's risk management, control, and governance processes, and by promoting continuous process improvement. In fulfilling this role, members of the Audit Department work collaboratively with Bank management and staff to proactively provide advice and guidance on management's design and implementation of these processes.

Audit contributes to the Bank becoming a Digital First Bank by adopting agile and lean audit processes that enable the Department and the business to work in collaborative and iterative ways to deliver timely insights.

Scope and Responsibilities

The Audit Department is responsible for independently and objectively assessing the appropriateness and effectiveness of the Bank's processes, as designed and implemented by management, to provide assurance that:

- Bank assets and client valuables are safeguarded from losses of all kinds, including those arising from fraud, irregularity, or corruption;
- significant financial, managerial, and operational information is accurate, reliable, and timely;
- resources are protected adequately and are acquired economically and used efficiently;
- potential threats to the achievement of Bank objectives are identified, assessed, mitigated, and monitored;
- Bank policies, standards, and procedures, and applicable laws and regulations, are complied with;
- strong ethics and values are promoted within the Bank; and
- operations or programs are being carried out effectively and efficiently, and their results are consistent with established goals and objectives.

The Audit Department may perform, when feasible, advisory (consulting) services and monitoring activities to assist management in meeting its objectives and to improve risk management and operational effectiveness, while still maintaining its independence.

Independence

The Chief Internal Auditor is responsible for conducting internal audits within the Bank of Canada. 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 Office of the Governor. The ongoing appropriateness of the administrative reporting

relationship is assessed annually by the Audit and Finance Committee in conjunction with the approval of this Charter.

The Chief Internal Auditor will ensure that the internal audit activity remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. Actions will be taken to preserve independence and objectivity; however, if impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others. Internal auditors will:

- disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;
- 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 being unduly influenced by their own interests or by others in forming judgments.

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

- aside from that within the scope of 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, not employed in the Audit Department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

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.

Authority

The Chief Internal Auditor and Audit Department staff are authorized to:

- have unrestricted access to all personnel, properties, records (including data and technology platforms) of the Bank and its service providers needed to accomplish audit

objectives, subject to accountability for confidentiality and safeguarding of records and information;

- have full and free access to senior management and the Audit and Finance Committee, including, at least quarterly, private sessions with the Audit and Finance Committee;
- allocate resources and select audit subjects, objectives, scope, procedures, timing and report content; 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.

Accountabilities

The **Chief Internal Auditor** is accountable to the Office of the Governor and the Audit and Finance Committee to:

- prepare and execute an annual risk-based plan. The draft plan is presented to the Office of the Governor for comment and to the Audit and Finance Committee for review and approval. The audit plan is to consider any risks or control concerns identified by management and address audit resource requirements. As needed, adjustments may be made to the plan during the year and brought forward to the Audit and Finance Committee for review and approval;
- provide information periodically on the status and results of the annual audit plan, and on the sufficiency of Audit Department resources;
- ensure each engagement within the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
- communicate, in a timely manner, issues related to the Bank's risk management, control, and governance processes (including, where appropriate, practical and cost-effective recommendations for improvements) to the levels of management that need to know and can ensure that appropriate actions are taken. This includes, when warranted, reporting to the Office of the Governor or to the Audit and Finance Committee. As well, provide pertinent information in a timely manner concerning such issues throughout the period to their resolution;
- provide an annual assessment of the appropriateness and effectiveness of the Bank's processes for controlling its activities and managing its risks in the areas set forth under the Internal Audit Role and Responsibilities section of this Charter;
- report results of the Audit Department's quality assurance and improvement program, including internal (annual) and external assessments (conducted at least every five years);
- report known or suspected instances of fraud in a timely manner;
- communicate trends and emerging issues that could impact the organization to senior management as appropriate;
- 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;

- maintain an audit staff with sufficient knowledge, skills, experience, and professional accreditation to meet the requirements of this Charter; and,
- follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit and Finance Committee of the Board of Directors any corrective actions not effectively implemented.

The Chief Internal Auditor will confirm to the Audit and Finance Committee of the Board of Directors, at least annually, the independence of the Audit Department.

The Chief Internal Auditor will disclose to the Audit and Finance Committee of the Board of Directors any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Support

In the context of this Charter, 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, and in appointing or removing the Chief Internal Auditor.

The [Audit and Finance Committee Terms of Reference](#) describes their authority regarding oversight of the Internal Audit function. In the context of this Charter, all managers and staff are expected to work cooperatively with the Audit Department.

Professional Standards

The Audit Department will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, 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. The Audit Department will also adhere to relevant standards promulgated by other professional organizations and regulatory bodies.

Members of the Audit Department comply with the Code of Ethics of the Institute of Internal Auditors, 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.

The Chief Internal Auditor will report on the Audit Department's conformance to the Code of Ethics and the *Standards* annually as part of Audit's annual report.


The Chief Internal Auditor maintains a quality assurance and improvement program that covers all aspects of the internal audit service and continuously monitors its effectiveness. The program is designed to support the fulfillment of Internal Audit's role and its conformity with the: Core Principles, Code of Ethics, *Standards*, and the Definition of Internal Auditing of the Institute of Internal Auditors. The program establishes and ensures adherence to policies and

procedures designed to guide the Audit Department, while integrating emerging trends and successful practices in its activities.

Review of Charter

In the absence of substantial changes to the Audit Department 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 November 4, 2021.

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Michael O'Bryan, CPA, CA, CIA, CISA, CFE
Managing Director and Chief Internal Auditor

November 15, 2021
Date