

COMMITTEE OF THE WHOLE – JUNE 14, 2011

REVIEW OF INTERNAL AUDIT CHARTER

Recommendation

The City Manager in consultation with the Commissioner of Finance/City Treasurer and the Commissioner of Legal & Administrative Services recommend:

1. That the review of the scope and scale of the City's internal audit department be considered as part of the organizational review; and
2. That this report be provided to the consultant conducting the organizational review.

Contribution to Sustainability

Not applicable

Economic Impact

There are no economic impacts associated with the recommendation contained in the report.

Communications Plan

N/A

Purpose

The purpose of this report is to provide Council with information regarding the broadening of the role of the City of Vaughan internal audit function.

Background - Analysis and Options

On May 24, 2011 Council requested a staff report be provided to the Committee of the Whole meeting of June 14, 2011, regarding a review of the Internal Audit Charter with a view of broadening the role of the Internal Auditor function including:

- Revise the title to "Auditor General/or City Auditor"
- Broadening the scope to include "review and recommendation in operations function and efficiencies"
- Clearly outline the independent role of the auditor
- Review the compensation package in light of the above

The first element of the municipal audit framework is the external auditor, which is required by the Municipal Act. The external auditor must be a licensed accountant, not an employee of the municipality, and appointed by Council. The external auditor provides an annual audit opinion on the City's financial statements. In addition to the external auditor a municipality has the ability to create an internal audit function.

Vaughan Pro-Active by Creating an Internal Audit Function in 2004

The City of Vaughan created an Audit Charter in 2004 and subsequently the role of Operational & Compliance Auditor. The job description is provided as Attachment 2. The primary job responsibilities of the position are:

- Acts as an independent and objective consultant in the conducting of audits and reporting on subsequent results, including developing recommendations.
- Direct and oversee all operational and compliance audit activities for the City;
- Develop and implement policies and procedures which support the operation of the audit function; ensures compliance with audit standards, and rules of professional conduct.
- Directs the day-to-day and strategic management of the audit function and develops a multi-year risk based audit plan
- Initiates, leads and conducts operational and compliance audits of all City functions according to Internal Audit and industry standards, applicable legislation, by-laws etc.
- Provides information, expertise, and guidance to senior management, the City Manager, the Finance and Administration Committee and Council with respect to operational and compliance activities, risk management and the administration of an effective and efficient audit function

The current Audit Charter submitted to the Audit Committee in 2008 states that the City of Vaughan Auditor reports administratively to the City Manager and functionally to the Finance and Administration Committee (formerly the Audit Committee). Attached to this report is the Audit Charter submitted on June 23, 2008.

2011 – Timely Review of the Audit Function

Given the growth experienced by the City of Vaughan since 2004, a review of the scope and scale of the City's internal audit department is timely. Since 2004 the City has grown in size and complexity. The City now has a population of approximately 300,000. A review of the internal audit function is appropriate.

1. Revise the title to “Auditor General/or City Auditor”

The need for a future review of the internal audit function was contemplated when the department was originally created. It was recognized that the qualifications and skill set required in the “future” may be considerably different than those in 2004. Accordingly, the City created the position of “Operational and Compliance Auditor.” This title and the associated job description provided the direction and scope that Council was seeking, and preserved the flexibility of the title and position of “City Auditor” for the future as the needs and requirements of the City change.

The City Manager is currently in the process of retaining a consultant to assist with conducting an organizational review. A review of the internal audit function was contemplated as part of that review.

In preparing for this report, staff researched information on municipal websites regarding internal audit practices for the 14 largest municipalities in Ontario (BMA Management Consulting Inc. 2010) excluding Toronto and observed a high level of consistency in the mandates, emphasis on independence and responsibilities, regardless of whether the position was an Internal Audit department or an Auditor General Department. Of the 14 municipalities, 9 had an internal function and only 5 had an Auditor General. They tended to be larger single tier municipalities. See Attachment 3.

A City Auditor is a municipal internal audit position that can have the same as, or broader responsibilities than the Auditor General position. City Auditors can perform the compliance and value for money aspects of an auditor general role, but can also perform a consultative role as an objective source of independent advice.

2. Broadening the scope to include “review and recommendation in operations function and efficiencies”

The scope of the current internal audit function is set out in the Audit Charter and more specifically in the job description.

Based on the material that was previously provided to the May 16, 2011 Finance & Administration Committee outlines the typical role of internal auditing as the following:

1. Internal Control
2. Risk Management; and
3. Corporate Governance

These roles are currently incorporated into the City’s Audit Charter and the job description.

As illustrated by the above, the audit function is focused on risk assessment and measuring compliance with corporate policies, procedures, by-laws, legislation, etc. Operational performance is not the primary focus. Inevitably opportunities for improvement are identified during the conduct of an audit and recommendations for change may be included in the audit report or referred to other processes depending on the nature of the observation. Focusing the audit function too much on operations will in fact detract from the risk management and compliance function, which is the primary and critical role of the auditor.

Continuous improvement is a separate function, which often requires a skill set that is different than that of an auditor. As noted in this report, an RFP has been issued by the City which includes reviewing the corporate structure and recommending ways of incorporating the concept of a “centre of excellence” in the organization. This can include continuous improvement.

3. Clearly outline the independent role of the auditor

The Code of Ethics for the Institute of Internal Auditors emphasizes the independent role of Internal Auditors in the Principles and Rules of Conduct regarding Objectivity. The attached Audit Charter refers to the need for independence and is again reinforced in the job description.

4. Review the compensation package in light of the above

The City has an administrative salary schedule and a formal evaluation process for establishing pay scales. The evaluation process involves established factors administered through a cross-departmental committee, including Human Resources. For consistency and equity across the organization, compensation is impacted by the job description against a number of established factors. The position title is not one of these factors. This position has been rated by the committee.

The size and complexity of the City has changed. If through the corporate structure review there is a desire to expand the size and structure of the Internal Audit department, the job description(s) would be assessed, and appropriate compensation would be determined based on any changes to the job description(s).

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable

Conclusion

The City of Vaughan internal audit position, originally titled "Operational and Compliance Auditor" has been included in the City's organizational structure since 2004. A review of the internal auditor function is timely, given the increase in complexity and size of the City. A review of the internal audit function will be part of the organizational review.

Attachments

1. June 23, 2008 report – Internal Audit Charter submitted in 2008
2. Job Description
3. Audit Function – Top 14 Municipalities in Ontario

Report prepared by:

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Commissioner of Finance & City Treasurer

Respectfully submitted,

Clayton D. Harris, CA
City Manager

City of Vaughan

Charter

Internal Auditing Department

Introduction:

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the City of Vaughan. It assists the City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

Role:

The Internal Auditing Department is established by Council and its responsibilities are defined by the Audit Committee of Council as part of their oversight function.

Professional Standards:

The Internal Auditing Staff shall govern themselves by adherence to The Institute of Internal Auditors' "Code of Ethics." The Institute's "International Standards for the Professional Practice of Internal Auditing" (Standards) shall constitute the operating procedures for the department. These two documents constitute an addendum to their charter. The Institute of Internal Auditors' "Practice Advisories" will be adhered to as applicable. In addition, Internal Auditing will adhere to the City's policies and procedures.

Authority:

Authority is granted for full, free, and unrestricted access to any and all of the City's records, physical properties, and personnel relevant to any function under review. All employees are requested to assist Internal Auditing in fulfilling their staff function. Internal Auditing shall also have free and unrestricted access to the Audit Committee of Council.

Documentation and information given to Internal Auditing during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Organization:

The City Auditor shall report administratively to the City Manager and functionally to the Audit Committee of Council.

Independence:

All internal audit activities shall remain free of influence by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude necessary in rendering reports.

Internal Auditors shall have no direct operational responsibility or authority over any of the activities they review. Accordingly, they shall not develop nor install systems or procedures, prepare records or engage in any other activity which would normally be audited.

Audit Scope:

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management process, system of internal control structure, and the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. It includes:

- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, laws, and regulations which could have a significant impact on operations and reports and whether the organization is in compliance.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Reviewing and appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating the effectiveness of the organization's risk management system.
- Reviewing specific operations at the request of the Audit Committee or management, as appropriate.

Audit Planning:

Every three years, the City Auditor shall submit to senior management and the Audit Committee a summary of the audit work schedule. The audit work schedule is to be developed based on a prioritization of the audit universe using a risk-based methodology. Any significant deviation from the formally approved work schedule shall be communicated to senior management and the Audit Committee through periodic activity reports.

Reporting:

A written report will be prepared and issued by the City Auditor or designee following the conclusion of each audit and will be distributed as appropriate. A copy of each audit report will be forwarded to the City Manager, the Chairman of the Audit Committee and Council.

The City Auditor or designee may include in the audit report the auditee's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any recommendations not addressed.

Internal Auditing shall be responsible for appropriate follow-up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared by the City Auditor or the Audit Committee.

Periodic Assessment:

The City Auditor should periodically assess whether the purpose, authority, and responsibility, as defined in this charter, continues to be adequate to enable the internal auditing activity to accomplish its objectives. The result of this periodic assessment should be communicated to senior management and Council.

April 15, 2008

**JOB DESCRIPTION
CORPORATION OF THE CITY OF VAUGHAN**

I. POSITION: OPERATIONAL & COMPLIANCE AUDITOR

II. SUPERVISOR: CITY MANAGER

III. DEPARTMENT: OFFICE OF THE CITY MANAGER

IV. DATE WRITTEN: AUGUST 24, 2004

V. DATE EVALUATED:

VI. BASIC JOB FUNCTION:

Responsible for directing the day-to-day activities of the audit function and directing and overseeing operational and compliance audit activities for the City, including initiating, leading and conducting operational effectiveness reviews, audits of compliance with applicable legislation, regulations, by-laws, City policies and procedures and developing recommendations as appropriate. Engagements are conducted in accordance with the Audit Charter and according to Internal Audit and industry standards and codes of professional conduct. Develops, implements and maintains appropriate policies, procedures and programs which support the operation of the audit function; providing information, advice, and assistance to senior staff with respect to risk assessment. Operates as an independent and objective "consultant" in the conducting of audits, the preparation of reports and recommendations. Plans, coordinates and directs third party consultants in the carrying out of their responsibilities.

VII. JOB RESPONSIBILITIES:

1. Directs and oversees all operational and compliance audit activities for the City;
2. Develops and implements policies and procedures which support the operation of the audit function; ensures compliance with audit standards, and rules of professional conduct.
3. Directs the day-to-day and strategic management of the audit function and develops a multi-year risk based audit plan;
4. Initiates, leads and conducts operational and compliance audits of all City functions according to Internal Audit and industry standards, applicable legislation, by-laws, etc.
5. Provides information, expertise, and guidance to senior management, the City Manager, the Audit Committee and Council with respect to operational and compliance activities, risk management and the administration of an effective and efficient audit function.
6. Acts as an independent and objective consultant in the conducting of audits and reporting on subsequent results, including developing recommendations.

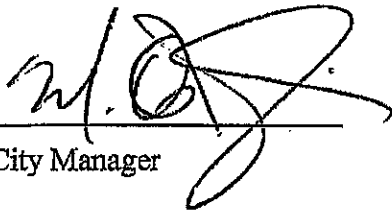
7. Maintains a level of accountability through the development and implementation of a risk based audit plan and regular status updates and reporting.
8. Monitors and conducts follow-up to ensure that agreed to improvements and changes are implemented.
9. Develop and deliver presentations to all staff on the purpose and role of the audit function outlining the process and expectations of staff as required.
10. Plans, coordinates, and directs third party external consultant reviews as required.
11. Establishes and maintains strong relationships with external Senior Audit Professionals, particularly with other Municipalities in the GTA for the purposes of discussing matters of mutual interest, and strategies pertaining to problems / challenges regarding audit and operational issues.
12. Maintains knowledge of trends related to the industry, applicable legislation, best practices, and accepted industry practices and standards.
13. Performs other related tasks and projects, as assigned, which are in accordance with job responsibilities or necessary departmental or corporate objectives.

VII. EDUCATION & EXPERIENCE REQUIREMENTS:

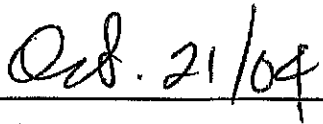
1. University Degree with a Professional Accounting Designation, preferably a Certified Internal Auditor (C.I.A.) designation, or suitable equivalent.
2. Minimum of 8 years senior manager operational improvement and audit experience.
3. Exceptional organizational, interpersonal, oral and written communication skills. Ability to deal courteously and effectively with all levels of Staff and Members of Council, and build consensus.
4. Strong project management and strategic leadership skills.
5. Computer proficient in MS Office and audit applications.

Incumbent*

* I have seen this job description



City Manager



Date



Audit Function – Top 14 Municipalities in Ontario

City of Ottawa	Auditor General
City of Mississauga	Internal Audit
City of Hamilton	Internal Audit
City of Brampton	Internal Audit
City of London	Internal Audit – Outsourced to CA firm
Town of Markham	Auditor General
City of Vaughan	Internal Audit
City of Windsor	Auditor General
Town of Kitchener	Internal Audit
Town of Oakville	Internal Audit
Town of Richmond Hill	No Internal audit function
City of Burlington	Internal Audit – City Auditor
City of Greater Sudbury	Auditor General
Town of Oshawa	Auditor General