

Report to Finance and Corporate Services Committee

Page: 1
File: A00
Pending #:xx

TO: FINANCE AND CORPORATE SERVICES COMMITTEE

PREPARED BY AND KEY CONTACT: S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT, EXT. # 5452

SUBMITTED BY: S. MACGREGOR, DIRECTOR OF INTERNAL AUDIT

GENERAL MANAGER APPROVAL: N/A

CHIEF ADMINISTRATIVE OFFICER APPROVAL: C. LADD, CHIEF ADMINISTRATIVE OFFICER

DATE: DECEMBER 14, 2016

SUBJECT: INTERNAL AUDIT FRAMEWORK, CHARTER AND WORK PLAN

WARD: ALL

RECOMMENDED MOTIONS

1. That the framework identified in paragraph 6 providing clarification of the Finance and Corporate Services Committee's oversight of Internal Audit be approved.
2. That the Internal Audit Charter attached as Appendix "A" to the Report to the Finance and Corporate Services Committee dated December 14, 2016 be approved and the previous Internal Audit Mandate approved in 2008 be repealed.
3. That the Internal Audit work plan for 2017 attached as Appendix "B" to the Report to the Finance and Corporate Services Committee dated December 14, 2016 be approved.

PURPOSE & BACKGROUND

4. In the 2016 budget, Council approved the reinstatement of the Internal Audit function which had been vacant since the retirement of the prior Director of Internal Audit in 2012. With the re-establishment of Internal Audit, it is necessary to define the roles of both Council and Internal Audit to ensure expectations are met in the delivery of Internal Audit work.
5. The purpose of this staff report is: to clarify the framework which the Finance and Corporate Services Committee will use to oversee the Internal Audit function, to approve the updated Internal Audit Charter setting out the mandate of Internal Audit, and to approve the Internal Audit work plan for 2017.

ANALYSIS

Oversight of Internal Audit

6. The proposed framework is designed to articulate and clarify the responsibilities of the Finance and Corporate Services Committee in respect of Internal Audit to assist in fulfilling its oversight responsibilities. The proposed framework includes the following:

Report to Finance and Corporate Services Committee

Page: 2
File: A00
Pending #:xx

- Approve the annual internal audit plan and any subsequent significant changes to the plan;
 - Review the internal audit budget and resource plan relative to the delivery of the audit plan and activities;
 - Review reports from the Chief Administrative Officer and the Director of Internal Audit identifying audit issues and the steps taken to resolve them;
 - Review the adequacy of management responses to audit concerns, and the adequacy of internal control systems, in relation to the risks and costs involved;
 - Review reports related to the investigation of significant non-compliance, conflicts of interest, misconduct, or fraud and management's resolution and recommendations to Council;
 - Review the internal audit framework periodically and recommend modifications to Council as necessary; and
 - Provide opportunity for private discussion of sensitive matters raised by the Director of Internal Audit.
7. Staff recommend that the Finance and Corporate Services Committee approve the framework for the oversight of Internal Audit due to its responsibility, as set out in the procedural by-law for Reference Committees, with respect to audit functions. It is expected that Internal Audit will report to the Finance and Corporate Services Committee on a quarterly basis.

Internal Audit Charter

8. An Internal Audit Mandate was approved in 2008, however the internal audit program was discontinued in 2012. Given that significant program changes have occurred since that time, including reporting relationships and scope of responsibilities, the proposed updated Internal Audit Charter formalizes the function's mandate, authority, and responsibilities to ensure they reflect the current expectations of Council.
9. In addition to specific transaction based engagements including financial, process, performance and investigative audits, Internal Audit responsibilities include: performing consulting services, follow up and closure of recommendations from audits, risk management activities, governance/internal control/risk management education, and coordination with external auditors.
10. The Internal Audit Charter in Appendix "A" provides clarity on the role and responsibilities of Internal Audit to ensure its services remain positioned to assist management and Council with matters related to governance, risk management and internal controls.

Internal Audit Work Plan

11. The Internal Audit work plan for 2017 included in Appendix "B" has been developed from the identification of risk areas by the Director of Internal Audit with input from the Executive Management Team (EMT), Senior Leadership Team (SLT), the Chair of the Finance and Corporate Services Committee, the Mayor, other City staff and follow-up recommended by the external auditor in recent investigative engagements. There is some flexibility in the work plan to be able to address projects that may arise during the year from Council or EMT. Additional

Report to Finance and Corporate Services Committee

projects identified, but due to resource limitations are not included in the 2017 work plan, are also listed and can be undertaken in future years.

ENVIRONMENTAL MATTERS

12. There are no environmental matters related to the recommendations.

ALTERNATIVE

13. The following alternative is available for consideration by the Finance and Corporate Services Committee:

Alternative #1 The Finance and Corporate Services Committee could not approve the proposed internal audit work plan.

This alternative is not recommended as the proposed plan was prepared to prioritize projects which will meet the strategic objectives of Council and address the highest risk areas. The Committee could decide to add/delete/replace projects from the proposed work plan understanding that the plan was prepared with input from EMT, SLT, the Mayor, the Chair of Finance and Corporate Services Committee and recommendations from recent investigative engagements performed by the external auditors.

FINANCIAL

14. There are no direct financial implications for the Corporation resulting from the proposed recommendations. The Finance and Corporate Services Committee's formalized oversight of Internal Audit, an updated Internal Audit Charter, and a defined Internal Audit work plan will strengthen the City's corporate governance and control environment which may result in cost savings and cost avoidance in the future.

LINKAGE TO COUNCIL STRATEGIC PRIORITIES

15. The recommendations included in this Staff Report support the following goals identified in the 2014-2018 Strategic Plan:
 - Responsible Spending – demonstrate value for money
16. The recommendations in this report will strengthen the City's corporate governance and control environment which align with the goal of responsible spending.

Report to Finance and Corporate Services Committee

Page: 4
File: A00
Pending #:xx

Appendix "A" – Internal Audit Charter

MANDATE

Internal Audit is an independent and objective assurance and consulting function which is established to add value and improve City operations. Internal Audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of the organization's governance, risk management, and internal control processes.

SCOPE

Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the City's governance, risk management process, system of internal controls and the quality of performance in carrying out assigned responsibilities to achieve the organization's goals and objectives to ensure:

- Risks are appropriately identified and managed.
- Key controls in mitigating risks are effective and efficient.
- Corporate assets and funds are properly accounted for, recorded and safeguarded against losses from avoidable causes.
- Corporate resources are acquired economically and used efficiently for achievement of the City's programs, plans and objectives.
- Activities of the City are in compliance with applicable federal and provincial statutes and regulations, with City goals and objectives, policies, plans, procedures, standards, regulations, by-laws and other directives of Council.
- Financial, managerial and operating information is accurate, reliable and timely.

INDEPENDENCE

The Director of Internal Audit reports functionally to the Finance and Corporate Services Committee and administratively to the Chief Administrative Officer. These reporting relationships help ensure independence, promote audit objectivity and assure adequate consideration of audit recommendations.

All internal audit activities will remain free of influence by any element in the organization, including audit selection, scope, procedures, frequency, timing or report content to maintain an independent and objective attitude necessary in preparing Internal Audit reports.

The Director of Internal Audit may meet with the Finance and Corporate Services Committee periodically, with or without management present, and shall have unrestricted access to the Chair of the Finance and Corporate Services Committee.

Internal Audit will have no direct operational responsibility or authority over any of the activities they review. Accordingly, it will not develop systems or procedures, prepare records or engage in any other activity which would normally be audited.

RESPONSIBILITIES

Internal Audit has the responsibility to:

- Develop a flexible audit plan, including any risks or control concerns identified by management, for the Finance and Corporate Services Committee's review and approval.
- Implement the approved audit plan including any special tasks or projects requested by management and the Finance and Corporate Services Committee.

Report to Finance and Corporate Services Committee

Page: 5
File: A00
Pending #:xx

- Perform consulting services, beyond internal audit assurance services, to assist management in meeting its objectives.
- Determine the adequacy and effectiveness of the systems of internal accounting, financial and operating controls.
- Review established systems to ensure compliance with those policies, plans, procedures, laws and regulations which would have a significant impact on operations and determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Report to the appropriate management, or those who should take corrective action, the results of audit examinations, the audit opinions formed and recommendations made.
- Act as an ongoing resource to management by providing impartial and objective advice related to control and risk management issues.
- Issue periodic reports to the Finance and Corporate Services Committee summarizing results of audit activities.
- Foster collaboration and teamwork to support management's efforts to achieve the City's objectives by consulting with senior management regularly with respect to the status of all audit findings to ensure full awareness of any significant issues that arose.
- Evaluate any plans or actions taken to correct reported conditions and provide timely follow up to ensure satisfactory disposition of audit findings in the manner and timeframe committed to by management.
- Develop an educational program to create awareness of internal audit services within the organization.
- Keep the Finance and Corporate Services Committee informed of emerging trends and successful practices in internal auditing.
- Perform investigations of suspected fraudulent activities within the City.
- Coordinate with the City's external auditors by sharing the results of internal audits completed throughout the year, and participating in external audit planning and risk assessment activities.

AUTHORITY

Internal Audit is granted full, free and unrestricted access to any and all records, property and personnel relevant to any function under review. Access to personal employee files shall be through the Director of Human Resources and in consideration of acceptable protection of personal employee information not relevant to an audit review. All employees will assist Internal Audit in fulfilling its objectives.

Internal Audit has the authority to conduct audits and reviews of all City departments as well as other entities the City is related to or has an interest in.

Internal Audit is not authorized to:

- Perform any operational duties for the organization, including the implementation of internal audit recommendations.
- Initiate or approve accounting transactions.
- Direct the activities of any City employee unless such employee has been assigned to an audit team or to otherwise assist Internal Audit.

AUDIT PLANNING

Each year, Internal Audit will prepare a work plan, setting out the projects proposed for the coming year. In order to generate this plan, the following sources will be considered:

Report to Finance and Corporate Services Committee

Page: 6
File: A00
Pending #:xx

- Requests from the Finance and Corporate Services Committee, management and staff.
- Any audits planned for the previous year that were delayed or are incomplete.
- Any conditions or concerns discovered or communicated throughout the past year.

The annual work plan will be presented to the Finance and Corporate Services Committee for approval.

REPORTING AND MONITORING

A written report will be prepared and issued by Internal Audit following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Finance and Corporate Services Committee.

The internal audit report will include management's response and corrective action taken to the specific findings and recommendations. Internal Audit will be responsible for appropriate follow up on audit findings and recommendations. All significant findings will remain in an open issues file until cleared.

At least quarterly, Internal Audit will report to the Finance and Corporate Services Committee including a report on the performance of Internal Audit relative to the approved work plan, significant issues identified with resolutions, and assurance as to areas that are well-controlled.

Situations may arise where a report is requested to be presented in "Closed Session". In order to qualify as "closed" the report may be evaluated by the City Clerk to verify if it meets the criteria outlined in the Municipal Act. Closed Session reports will be distributed on a separate agenda to the Finance and Corporate Services Committee and senior management in accordance with the City's existing procedures.

In reports where only a section of the audit findings are classified as confidential, these findings and recommendations will be reported separately and placed in a CONFIDENTIAL appendix to the Finance and Corporate Services report.

PROFESSIONAL STANDARDS

Internal Audit will be guided by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

REVIEW OF INTERNAL AUDIT

The Chief Administrative Officer and the Finance and Corporate Services Committee will ensure Internal Audit has in place an internal quality assessment process for reviewing the function's effectiveness. This will include feedback from the external auditors and stakeholders.

Internal Audit will prepare an annual report to the Finance and Corporate Services Committee summarizing all activity for the previous year showing the status of work against the approved work plan.

Report to Finance and Corporate Services Committee

Appendix “B” – Proposed 2017 Internal Audit Work Plan

#	Project	Area	Audit Focus	Estimated Timing
1	Procurement – “stress test” to assess compliance with City policies and procedures including recommendations from recent investigative engagements: P Cards, expense claims, purchase orders, project splitting, low value procurement.	Corporate-wide	Compliance	Q1
2	Transit – collection and monitoring of performance for the performance based contract.	Transit	Consulting	Q1
3	Cash handling – review sources of cash collected, disbursed and maintained by the City.	Corporate-wide	Process Review	Q2
4	Use of consultants – analysis of expenses incurred for the City’s use of consultants.	Corporate-wide	Value for Money	Q2
5	Stores – review of the efficiency and effectiveness of the stores function at the City.	Finance	Process Review	Q3
6	Service Desk – review of the efficiency and effectiveness of the IT service/helpdesk function.	Information Technology	Process Review	Q4
7	Entity level controls – key elements of the control environment including: Code of Conduct, Conflict of Interest, Whistleblower hotline and fraud risk assessment.	Corporate-wide	Consulting	Q1-Q4
8	Confidential investigations	As needed	Consulting	As needed

Additional projects which were identified as a need, and can be addressed in subsequent years, include:

- Accounts payable – assess compliance with internal controls including vendor master file maintenance and delegation of financial authority
- Bid process – audit of low and high value procurement bids
- Revenue – audit of controls in significant revenue streams including: property taxation, user fees and service charges, development charges

Report to Finance and Corporate Services Committee

Page: 8
File: A00
Pending #:xx

- Information technology – audit of SAP system conversion
- Water supply and distribution – assess compliance with applicable internal controls and external requirements
- Wastewater collection and treatment – assess compliance with applicable internal controls and external requirements
- Human resources – audit of internal controls for payroll and overtime
- Building/business permits –process review for the establishment of new businesses
- Corporate sponsorship – monitoring of compliance with sponsorship agreements
- Library – process review (complementing the current service review) to identify potential cost savings
- Service Barrie – post-implementation process review
- Fleet – analysis of fleet management costs and processes
- Planning and building – analysis of fee structures charged
- Capital – assess compliance with internal controls for capital projects
- Committee assigned budgets – process review for assigned budgets of third parties managed by the City