

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 3, Report No. 7, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 24, 2014.

3

INTERNAL AUDIT POLICY

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Director of Internal Audit, dated May 26, 2014:

Recommendation

The Director of Internal Audit recommends that:

1. The revised Internal Audit Policy be approved.

Contribution to Sustainability

Internal Audit activities and reports contribute to the sustainability of the City by providing advice and assurance that controls supporting the effective delivery of services and programs are effective. Longer term sustainability needs the support of good, efficient risk mitigation strategies. Internal Audit can provide support for that sustainability by providing independent advice and assurance.

An effective Internal Audit Policy outlines the responsibilities and accountabilities of both management and the Internal Audit Department.

Economic Impact

There are no direct economic impacts associated with this Policy.

Communications Plan

Not applicable.

Purpose

To present to the Finance, Administration and Audit Committee the revised Internal Audit Policy for approval.

Background - Analysis and Options

Better practice recommends that the Policy be reviewed annually either with the Audit Committee or an equivalent oversight governing body. For the City of Vaughan, the Finance, Administration and Audit Committee, consisting of the Mayor and all City Councilors is the oversight governing body.

The Internal Audit Policy has been updated to reflect better practice standards that are compliant with the International Professional Practice Framework (IPPF) and better clarify internal audit roles and responsibilities.

The following are the significant changes to the Policy.

- The name of the document was renamed from a Charter to a Policy. This was done to give the Policy a profile in the organization.
- A "Primary Roles" section was added to distinguish the two main roles of Internal Audit.

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Item 3, Finance Report No. 7 – Page 2

- Added under “Scope of Work” the availability of internal audit to do special projects for Council and the City Manager’s Office.
- Added under the “Responsibility” section, the requirement for internal audit to comply with the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).
- Added a section “Director of Internal Audit – Appointment and Dismissal” to reflect alignment with City by-Law 012-2013.
- Fine-tuned the “Glossary of Selected Terms” section.

Relationship to Vaughan Vision 2020/Strategic Plan

This new Internal Audit Policy is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Regional Implications

Not applicable.

Conclusion

The Internal Audit Policy represents better practice and supports good public sector governance. The recommended revised Policy keeps it current and reflects the important assurance and advisory roles and responsibilities of the Internal Audit function.

Attachment

Internal Audit Policy

Report prepared by:

Paul Wallis CPA, CMA, CIA, CISA, CRMA
Director, Internal Audit

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)

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Paul Wallis CPA, CMA, CIA, CISA, CRMA
Director, Internal Audit

Respectfully submitted,

Paul Wallis CPA, CMA, CIA, CISA, CRMA
Director, Internal Audit



Internal Audit Policy

April 2014

PURPOSE AND DEFINITION

Internal Audit assists the City of Vaughan in accomplishing its business objectives by providing a systematic and disciplined approach to help improve the effectiveness of risk management, control and governance processes.

Internal Audit is an independent, objective assurance and advisory activity designed to add value and improve operations.

PRINCIPLES**Independence and Objectivity**

Internal Auditors must be independent of the functions they audit. Internal Auditors must be objective in performing their work. Internal Audit can provide advice by assisting in identifying risk and working with the organization to improve control and governance but is not responsible for implementing risk mitigation strategies or performing control functions.

Risk Based and Client Focused

Internal Auditors are involved in all significant business processes, functions and organizational units and work with all levels of Management to identify and assess risk, control and governance issues.

Management Supported

Management and Vaughan's Council will provide the necessary resources to help support Internal Audit as an integral component of the governance structure. Allocation of resources will be based on Management's and the Council's overall assessment of need and risk.

Continuous Improvement

Internal Audit, through its own practices and actions, will promote and contribute to continuous improvement in the City.

Partnerships

Internal Audit will work with all organizational units in partnership to promote a strong governance, accountability and risk management environment in the City of Vaughan. Advisory services will support proactive partnership.

PRIMARY ROLES

The Internal Audit Function will have two roles:

- **Agent of Change Role** – This role is proactive and forward thinking consisting of engagements and projects that focus on strategic and operational risk and control. These are primarily advisory assignments that offer a better opportunity to serve the changing needs of the City and help support better management of organizational risk.
- **Stewardship Role** – These are engagements and projects designed to provide reasonable assurance, through review of existing operations and processes, that the City is managing resources effectively and efficiently, is in compliance with policies and legislation and that controls are properly functioning as intended.

SCOPE OF WORK

All activities of the City of Vaughan and their Boards, Authorities and Agencies may be subject to audit by Internal Audit.

This includes:

- Determining if risks are identified and properly managed.
- Evaluating the effectiveness and efficiency of key controls in mitigating risk.
- Evaluating the potential for the occurrence of fraud and how the organization manages fraud risk.
- Reviewing and appraising the reliability and integrity of financial, managerial and operating data and information.
- Determining if resources are acquired economically, used efficiently and adequately protected.
- Ascertaining compliance with legislation and policies and procedures.
- Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with established objectives.
- Ensuring quality and continuous improvement is fostered in the City's risk, control and governance processes.

- Conducting special projects or reviews as requested by either Council or the City Manager's Office.

ACCOUNTABILITY

The Director of Internal Audit will be accountable to Council and will:

- Provide, at least annually based on the scope of work performed, an assessment of the effectiveness of the City's risk management practices. Thematic based reporting will support the assessment.
- Report significant issues related to the processes for controlling the City's overall business activities and provide information through active and constructive resolution.
- Provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate and partner with the external auditors.
- Confirm, at least annually, the organizational independence of the Internal Audit activity.

REPORTING RELATIONSHIPS

- The Director of Internal Audit reports functionally to Council through the Finance, Administration and Audit Committee of Council and administratively to the City Manager.

AUTHORITY

The Director and staff of Internal Audit are authorized to:

- Have complete independence and not be restricted in the scope, performance or communication of its work. Management and Council may provide general direction as to the scope of work and the activities to be audited, and may request Internal Audit to carry out special reviews or audits.
- Have unrestricted access to all records, physical properties, functions and personnel necessary to effectively discharge its responsibilities.

- Allocate resources, determine scope of work and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel within the City of Vaughan where audits are performed, as well as other specialized services from within or outside the organization.

The Director and staff of Internal Audit are not authorized to:

- Perform any operational duties for the City.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any employee in the City not employed by Internal Audit, except to the extent such employees have been appropriately assigned to audit teams or to otherwise assist Internal Audit.
- Develop and/or implement corporate policy. Internal audit can evaluate and provide comments on any existing policy or new policy being developed.

In case of a City emergency, to the extent that redeployment of staff may be necessary to support critical functions, Internal Audit staff may be required to perform otherwise non-authorized duties.

In the development and maintenance of a Code of Conduct, Fraud Policy or Risk Management Framework, Internal Audit should not assume ownership or overall operation of the supporting processes and policies. Internal Audit should provide guidance and education, and evaluate the overall effectiveness of the processes and policies.

RESPONSIBILITY

The Director and staff of Internal Audit have responsibility to:

- Develop an Internal Audit Risk Based Work Plan using an appropriate risk-based methodology, including any risks, control or governance concerns identified by Management and Council, and update that Plan annually. The Plan must be approved by Council.
- Implement the Internal Audit Risk Based Work Plan, as approved, including as appropriate any special tasks or projects requested by Management and Council.

- Perform advisory services to assist Management and Council in meeting its objectives. Examples include facilitation, risk and control training and other advisory services.
- Issue reports to Management and Council summarizing the results of audit activities.
- Establish a quality assurance program that includes both ongoing and periodic internal quality assessments and undergo an external quality assessment a minimum of once every five years.
- Review the Internal Audit Charter at least once every year to ensure that it is up-to-date and effective, and report to Management and Council.
- Develop and maintain an audit team with versatile skill sets in order to respond effectively to Council and Management needs.
- Develop Internal Audit performance measures and report results to Management and Council.
- Assist in the investigation of suspected fraudulent activities and notify Management and Council of the results.
- Comply with City's obligations under the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).

DIRECTOR OF INTERNAL AUDIT – APPOINTMENT AND DISMISSAL

As referenced in City By-Law 012-2013, only Council has the authority and responsibility to appoint or dismiss the Director of Internal Audit.

STANDARDS OF AUDIT PRACTICE

Internal Audit conforms to the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics adopted by the Institute of Internal Auditors, as well as the City's Code of Conduct and the Internal Audit Procedure Manual.

GLOSSARY OF SELECTED TERMS

Add Value	<p>Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.</p>
Advisory Services	<p>Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management and control processes without the Internal Auditor assuming Management responsibility. Examples include counsel, advice, facilitation and training.</p> <p>[Additional Notes: Advisory services are generally performed at the specific request of an engagement client. When performing advisory services the Internal Auditor should maintain objectivity and not assume management responsibility.]</p>
Assurance	<p>An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization and that the results can be relied upon for supporting informed decision making.</p>
Compliance	<p>Conformity and adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.</p>
Conflict of Interest	<p>Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.</p>

Control Environment	<p>The attitude and actions of the Board/Council and Management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:</p> <ul style="list-style-type: none"> ▪ Integrity and ethical values. ▪ Management’s philosophy and operating style. ▪ Organizational structure. ▪ Assignment of authority and responsibility. ▪ Human resource policies and practices. ▪ Competence of personnel.
Control/Internal Controls	<p>Any action taken by Management and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.</p> <p>The system of management controls (business plans, capturing and analyzing data, performance reporting, code of conduct, etc.) that are implemented within an organization to ensure that the organization’s assets (human, physical and information) are protected and to provide reasonable assurance that its objectives can be achieved.</p>
Control Processes	<p>The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.</p>
Council	<p>A legislative body that that has overall responsibility and accountability for the City of Vaughan. For purposes of this Charter, this also includes Committees that support Council including the Financial and Administration Committee.</p>

Engagement	A specific Internal Audit assignment, task or review activity, such as an internal audit, Control Self-Assessment review, fraud examination or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.
Engagement Objectives	Broad statements developed by Internal Auditors that define intended engagement accomplishments.
Ethics	Ethics are defined as the conception of what is right and fair conduct or behavior. Ethics can also be equated with the concept of morals - one's ability to choose between right and wrong, good and bad, acceptable and unacceptable.
Fraud	Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.
Governance	The combination of processes and structures implemented by the governing body in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.
Independence	The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.
Objectivity	An unbiased mental attitude that allows Internal Auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires Internal Auditors not to subordinate their judgment on audit matters to that of others.

Risk	Effect of uncertainty on objectives or outcomes.
Risk Management	Process to identify, assess, manage and control potential events or situations, to provide reasonable assurance regarding the achievement of the organization's objectives.
Stewardship	To hold something in trust for another. The activity or job of protecting and being responsible for something.