

Committee of the Whole (2) Report

DATE: Tuesday, June 16, 2020

WARD(S): ALL

**TITLE: INTERNAL AUDIT POLICY & COMMITTEE CHARTER FOR
AUDIT RELATED MATTERS**

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To propose revisions to the City's Internal Audit Policy and to establish a formal Committee of the Whole Charter for Audit Related Matters.

Report Highlights

- The Internal Audit Policy is a formal document that defines the Internal Audit Department's purpose, authority, and responsibility.
- The policy remains effective. However, it requires some updates, including the addition of Internal Audit's role as the administrator of the City's Anonymous Reporting System and aligning Internal Audit's assurance and advisory roles with the City's new Enterprise Risk Management program.
- The City's Procedure By-Law 7-2011 establishes the principles and rules to be used for Council meetings. However, it does not formally define the roles and responsibilities of the Committee of the Whole with respect to oversight over audit related matters.
- The proposed Committee of the Whole Charter for Audit Related Matters is designed to provide guidance to the Committee of the Whole on carrying out their governance, accountability and controllership responsibilities.
- Approval of the updated Internal Audit Policy and adopting the Committee of the Whole Charter for Audit Related Matters would represent better practice and supports good public sector governance.

Recommendations

1. That the revised Internal Audit Policy, substantially in the form in Attachment 1, be approved; and,
2. That the Committee of the Whole Charter for Audit Related Matters, substantially in the form in Attachment 3, be approved.

Background

The Internal Audit Charter was developed and approved by the Finance, Administration and Audit Committee (FA&A) on October 2012. The Charter was revised and renamed the Internal Audit Policy and approved by Council in June 2014.

The Internal Audit Policy is a formal document that defines the Internal Audit Department's purpose, authority, and responsibility. It establishes the Internal Audit Department's position within the City, including the nature of the functional reporting relationship with Council; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

The policy requires that it be reviewed at least once a year to ensure that it is up-to-date and effective. As reported in the past two Internal Audit Annual Reports, the policy remains effective. However, it requires updating to reflect Internal Audit's role as the administrator of the Anonymous Reporting System. Internal Audit had committed to bringing forward a revised policy to a future committee meeting for consideration and approval.

In last year's Internal Audit Annual Report, it was also identified that the City should adopt a formal Charter that sets out the authority of the Committee of the Whole with respect to audit related matters. Internal Audit had committed to bring forward a proposed Charter to a future committee meeting for consideration and approval.

Previous Reports/Authority

[2018 Internal Audit Annual Report](#)

[2017 Internal Audit Annual Report](#)

Analysis and Options

As part of our annual review, we compared the City's Internal Audit Policy to the Institute of Internal Auditors (IIA) International Professional Practices Framework to continue to ensure that the Policy is current and reflects the IIA's professional standards. We also benchmarked and compared our Policy to several other municipalities, including York Region, Peel Region, the City of Mississauga, the City of Brampton and the City of Edmonton to ensure completeness and conformity.

The revised Internal Audit Policy (Attachment 1) has been updated to reflect Internal Audit's role as the administrator of the Anonymous Reporting System and the department's role in fraud investigation and reporting. Internal Audit's commitment to continuous improvement has also been formalized in the Policy as the Quality Assurance and Improvement Program.

The revised Policy also aligns Internal Audit's assurance and advisory roles with the City's Enterprise Risk Management program. The new Enterprise Risk Management program was started in 2019 with the development of an overall framework, which will continue in 2020/2021, to develop an Enterprise Risk Management Policy, procedures, risk assessment methodologies and risk profile management reports. Through the development of the new Enterprise Risk Management program, the City is establishing the culture, capabilities, and practices that organizations rely on to manage risk in creating, preserving, and realizing value. The definitions section of the Policy has been expanded for reference to provide further insight into the relation and activities of Internal Audit and Enterprise Risk Management.

The previous version of the Internal Audit Policy, marked up to show the revisions, has also been included in this report as Attachment 2.

Adopting a formal Committee of the Whole Charter for Audit Related Matters would be an important addition to the City's Corporate Governance Structure

According to the IIA:

"Independent audit committees help public sector organizations meet taxpayers' increasing demands for transparency and accountability by providing oversight of management practices in key governance areas such as risk management, internal audit, value and ethics, governance, financial stability, and others. Strong audit committees build public trust and confidence in how organizations are managed and strengthen the independence and value of the internal audit activity."

The City's Procedure By-Law 7-2011 establishes the principles and rules to be used for Council meetings, for the Committees that report to it directly or indirectly, and for its local boards which have not adopted separate rules of procedure.

According to By-Law 7-2011, the agenda composition for Committee of the Whole 2 includes all matters within City Council's authority which do not fall within the jurisdiction of another Standing Committee. The Committee focuses on matters that pertain to the City's finances, budget, audit function, and corporate administrative matters such as corporate policies. These items are identified in the agenda as "Finance, Administration and Audit" items.

While the Procedure By-Law provides guidance with respect to the administrative aspects of Committee governance, it does not formally define the roles and responsibilities of the Committee with respect to oversight over audit related matters.

A written Charter should be established providing the mandate of the Committee of the Whole with respect to audit related matters and:

- Outline roles and responsibilities of the Committee and its members.
- Establish authority to obtain information and required resources.
- Outline respective roles and responsibilities of internal and external stakeholders who have an obligation to interact with the Committee of the Whole with respect to audit related matters.
- Outline the process for developing, reviewing, and updating the Charter and the frequency of review.

The proposed Committee Charter for Audit Related Matters (Attachment 3) is designed to provide guidance to the Members of the Committee of the Whole on carrying out their governance, accountability and controllership responsibilities. This is done by receiving information about and advising on whether risks are being appropriately addressed through strong governance and an effective audit function.

The proposed Charter has been drafted based on the IIA's Model Audit Committee Charter and our review of the Audit Committee Charters of several other municipalities, including York Region, Peel Region, the City of Mississauga, the City of Brampton and the City of Edmonton to ensure completeness and conformity.

The proposed Charter documents the Committee's role of oversight and monitoring. In carrying out this responsibility, the Committee may rely on the Director of Internal Audit, management and any advisers, provided their reliance is reasonable.

The proposed Charter also identifies the Committee's oversight role over the City's programs and policies to prevent and identify fraud and ensuring that management takes the necessary actions when fraud is detected. The Committee should also be satisfied that the City has implemented an appropriate ethics and compliance program, including measuring the effectiveness of the City's Anonymous Reporting System.

Financial Impact

There are no direct economic impacts associated with this report.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

Approval of the updated Internal Audit Policy and adopting the Committee of the Whole Charter for Audit Related Matters would represent better practice and supports good public sector governance. These documents reflect the important oversight and assurance roles and responsibilities of both the Committee of the Whole and Internal Audit activity.

For more information, please contact: Kevin Shapiro, Director of Internal Audit, ext. 8293

Attachments

1. Attachment 1 – Updated Internal Audit Policy
2. Attachment 2 – Previous Internal Audit Policy with proposed revisions
3. Attachment 3 – Committee of the Whole Charter for Audit Related Matters

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