

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 29, 2020**

Item 1, Report No. 25, of the Committee of the Whole, which was adopted without amendment by the Council of the City of Vaughan on June 29, 2020.

#### **1. INTERNAL AUDIT POLICY & COMMITTEE CHARTER FOR AUDIT RELATED MATTERS**

**The Committee of the Whole recommends:**

- 1) That the recommendation contained in the following report of the Director of Internal Audit dated June 16, 2020 be approved; and**
- 2) That the benefits of establishing an Audit Committee be referred to the Effective Governance and Oversight Task Force for review.**

#### **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.**

## Committee of the Whole (2) Report

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**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

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**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

## **Prepared by**

Kevin Shapiro, Director of Internal Audit, ext. 8293  
Rebecca Burchert, Audit Project Manager, ext. 8124



# CITY OF VAUGHAN

## CORPORATE POLICY

**POLICY TITLE:** INTERNAL AUDIT

**POLICY NO.:** 02.C.07

<b>Section:</b>	Accountability & Transparency		
<b>Effective Date:</b>	Click or tap to enter a date.	<b>Date of Last Review:</b>	Click or tap to enter a date.
<b>Approval Authority:</b> Council	<b>Policy Owner:</b> Director, Internal Audit		

### POLICY STATEMENT

Internal Audit will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*), including the Code of Ethics and the definition of Internal Auditing. Internal Audit will manage, coordinate and investigate reports of fraud and misconduct in accordance with the Standards of the Association of Certified Fraud Examiners. Additionally, Internal Audit will adhere to the City's policies and procedures and the Internal Audit Procedures Manual.

### PURPOSE

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.

### SCOPE

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

This includes:

1. Determining if risks are identified and properly managed.
2. Evaluating the effectiveness and efficiency of key controls in mitigating risk.

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3. Evaluating the potential for the occurrence of fraud and how the organization manages fraud risk.
4. Reviewing and appraising the reliability and integrity of financial, managerial and operating data and information.
5. Determining if resources are acquired economically, used efficiently and adequately protected.
6. Ascertaining compliance with legislation and policies and procedures.
7. Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with established objectives.
8. Ensuring quality and continuous improvement is fostered in the City's risk, control and governance processes.
9. Conducting special projects or reviews as requested by either Council or the City Manager's Office.

#### **LEGISLATIVE REQUIREMENTS**

1. Municipal Freedom of Information and Protection of Privacy Act, R.S.O. 1990.

#### **DEFINITIONS**

1. **Add Value:** Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.
2. **Advisory Services:** 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.  
  
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.
3. **Assurance:** 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.



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- 4. Compliance:** Conformity and adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.
- 5. Conflict of Interest:** 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 their duties and responsibilities objectively.
- 6. Control Environment:** 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:
  - 6.1. Integrity and ethical values.
  - 6.2. Management's philosophy and operating style.
  - 6.3. Organizational structure.
  - 6.4. Assignment of authority and responsibility.
  - 6.5. Human resource policies and practices.
  - 6.6. Competence of personnel.
- 7. Control/Internal Controls:** 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.

The system of management controls (business plans, capturing and analyzing data, performance reporting, code of conduct, etc.) 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.
- 8. Control Processes:** 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.
- 9. Council:** A legislative body that has overall responsibility and accountability for the City of Vaughan. For purposes of this policy, this also includes Committees that support Council including the Committee of the Whole.
- 10. 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.

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- 11. Engagement Objectives:** Broad statements developed by Internal Auditors that define intended engagement accomplishments.
- 12. Enterprise Risk Management:** A structured, consistent and continuous process across the whole City for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of objectives.
- 13. Ethics:** Conception of what is right and fair conduct or behaviour. 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.
- 14. 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.
- 15. 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.
- 16. 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.
- 17. Mitigating Strategies:** Actions taken to manage risk, including:
- 17.1. Avoid: Action taken to remove the risk. This could imply not pursuing strategy, program or service as this would exceed the City's risk appetite.
  - 17.2. Accept: No action required as the severity of risk is within the risk appetite.
  - 17.3. Reduce: Action taken to reduce the severity of the risk. This is usually recognized as control used in everyday business decisions that reduces risk to an amount aligned with risk appetite and tolerances.
  - 17.4. Share: Action taken to reduce the severity of risk by transferring or otherwise sharing portion of the risk. Insurance, outsourcing and public private partnership arrangements are examples.
- 18. 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.

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**19.Risk:** The possibility that events will occur and affect the achievement of strategy and business objectives.

**20.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.

## **POLICY**

### **1. Principles**

#### **1.1. 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. Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

#### **1.2. 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.

#### **1.3. 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 Council's overall assessment of need and risk.

#### **1.4. Continuous Improvement**

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

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### 1.5. 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.

### 1.6. Confidentiality

Internal Auditors respect the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

## 2. Primary Services

The Internal Audit function will have two roles:

### 2.1. Assurance Services

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 compliant with policies and legislation and that controls are properly functioning as intended.

### 2.2. Consulting Services

These services are 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.

## 3. Accountability

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

3.1. 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.

3.2. Report significant issues related to the processes for controlling the City's overall business activities and provide information through active and constructive resolution.

3.3. Provide information on the status and results of the annual audit plan and the sufficiency of department resources.

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3.4. Coordinate and partner with the external auditors.

3.5. Confirm, at least annually, the organizational independence of the Internal Audit activity.

#### **4. Reporting Relationships**

The Director of Internal Audit reports functionally to the Committee of the Whole and administratively to the City Manager.

#### **5. Authority**

5.1. The Director and staff of Internal Audit are authorized to:

5.1.1. 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.

5.1.2. Have unrestricted access to all records, physical properties, functions and personnel necessary to effectively discharge its responsibilities.

5.1.3. Allocate resources, determine scope of work and apply the techniques required to accomplish audit objectives.

5.1.4. 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.

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

5.2.1. Perform any operational duties for the City.

5.2.2. Initiate or approve accounting transactions external to the Internal Audit Department.

5.2.3. 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.

5.2.4. Develop and/or implement corporate policy. Internal audit can evaluate and provide comments on any existing policy or new policy being developed.

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5.3. 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.

5.4. 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.

## **6. Responsibility**

The Director and staff of Internal Audit have responsibility to:

6.1. 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.

6.2. Implement the Internal Audit Risk Based Work Plan, as approved, including as appropriate any special tasks or projects requested by Management and Council.

6.3. Perform advisory services to assist Management and Council in meeting its objectives. Examples include facilitation, risk and control training and other advisory services.

6.4. Issue reports to Management and Council summarizing the results of audit activities.

6.5. Review the Internal Audit Policy at least once every year to ensure that it is up-to-date and effective, and report to Management and Council.

6.6. Develop and maintain an audit team with versatile skill sets in order to respond effectively to Council and Management needs.

6.7. Develop Internal Audit performance measures and report results to Management and Council.

6.8. Administer the Anonymous Reporting System.

6.9. Manage, coordinate and investigate reports of fraud and misconduct.

6.10.       Comply with City's obligations under the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).

## **7. Enterprise Risk Management (ERM)**

### **7.1. Assurance Role**

Internal Audit's core responsibility is to provide independent and objective assurance to Council and Management on the effectiveness of risk management activities.

### **7.2. Advisory Role**

Internal Audit may provide advisory services to support the development and maintenance of the City's ERM program. This may be done as long as Internal Audit's independence and objectivity is not threatened.

Allowable advisory services include:

- 7.2.1. Facilitating the identification and evaluation of risks.
- 7.2.2. Working with management in responding to risks.
- 7.2.3. Championing the development of an ERM program.
- 7.2.4. Helping coordinate ERM activities.
- 7.2.5. Consolidating reporting on risks.

## **8. Director of Internal Audit – Appointment and Dismissal**

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

## **9. Quality Assurance and Improvement Program**

Internal Audit will maintain a Quality Assurance and Improvement Program that covers all aspects of Internal Audit. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards. Internal Audit will evaluate whether the IIA's Code of Ethics are properly applied. The program will also assess the efficiency and effectiveness of the Internal Audit activity and identify opportunities for improvement.

The Director of Internal Audit will communicate to Management and Council on Internal Audit's Quality Assurance and Improvement program, including all external assessments conducted, a minimum of at least once every five years.

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**ADMINISTRATION**

*Administered by the Office of the City Clerk.*

<b>Review Schedule:</b>	SELECT If other, specify here	<b>Next Review Date:</b>	Click or tap to enter a date.
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<b>Related Policy(ies):</b>	
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<b>Related By-Law(s):</b>	
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<b>Procedural Document:</b>	
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**Revision History**

<b>Date:</b>	<b>Description:</b>
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# CITY OF VAUGHAN

## CORPORATE POLICY

**POLICY TITLE:** INTERNAL AUDIT

**POLICY NO.:** 02.C.07

<b>Section:</b>	Accountability & Transparency		
<b>Effective Date:</b>	Click or tap to enter a date.	<b>Date of Last Review:</b>	Click or tap to enter a date.
<b>Approval Authority:</b>	<b>Policy Owner:</b>		
Council	Director, Internal Audit		

### POLICY STATEMENT

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### PURPOSE

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.

### SCOPE

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

This includes:

1. Determining if risks are identified and properly managed.
2. Evaluating the effectiveness and efficiency of key controls in mitigating risk.

**Commented [BR1]:** Previously titled Standards for Professional Practice of Internal Audit located at end of policy (before definitions)  
Policy Statement now includes sentence: Internal Audit will manage, coordinate and investigate reports of fraud and misconduct...

**POLICY TITLE: INTERNAL AUDIT**

**POLICY NO.: 02.C.07**

3. Evaluating the potential for the occurrence of fraud and how the organization manages fraud risk.
4. Reviewing and appraising the reliability and integrity of financial, managerial and operating data and information.
5. Determining if resources are acquired economically, used efficiently and adequately protected.
6. Ascertaining compliance with legislation and policies and procedures.
7. Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with established objectives.
8. Ensuring quality and continuous improvement is fostered in the City's risk, control and governance processes.
9. Conducting special projects or reviews as requested by either Council or the City Manager's Office.

#### **LEGISLATIVE REQUIREMENTS**

1. Municipal Freedom of Information and Protection of Privacy Act

**Commented [BR2]:** Legislative requirement

#### **DEFINITIONS**

1. **Add Value:** Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.
2. **Advisory Services:** 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.  
  
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.
3. **Assurance:** 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.

**POLICY TITLE: INTERNAL AUDIT**

**POLICY NO.: 02.C.07**

- 4. Compliance:** Conformity and adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.
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  - 6.1.** Integrity and ethical values.
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  - 6.4.** Assignment of authority and responsibility.
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- 7. Control/Internal Controls:** 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.

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.
- 8. Control Processes:** 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.
- 9. Council:** 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 Committee of the Whole.
- 10. 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.

**POLICY TITLE: INTERNAL AUDIT**

**POLICY NO.: 02.C.07**

**11. Engagement Objectives:** Broad statements developed by Internal Auditors that define intended engagement accomplishments.

**12. Enterprise Risk Management:** Enterprise Risk Management is a structured, consistent and continuous process across the whole City for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of objectives.

**Commented [BR3]:** Underlined definitions have been added to the revised Policy.

**13. 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.

**14. 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.

**15. 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.

**16. 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.

**17. Mitigating Strategies:** Actions taken to manage risk.

**17.1. Avoid:** Action taken to remove the risk. This could imply not pursuing strategy, program or service as this would exceed the City's risk appetite.

**17.2. Accept:** No action required as the severity of risk is within the risk appetite.

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**17.4. Share:** Action taken to reduce the severity of risk by transferring or otherwise sharing portion of the risk. Insurance, outsourcing and public private partnership arrangements are examples.

**18. 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.

**POLICY TITLE: INTERNAL AUDIT**

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**19. Risk:** The possibility that events will occur and affect the achievement of strategy and business objectives.

**20. 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.

## **POLICY**

### **1. Principles**

#### **1.1. 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. Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

**Commented [BR4]:** Independence and Objectivity has been revised to better reflect Internal Audit's role within the City.

#### **1.2. 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.

#### **1.3. 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.

#### **1.4. Continuous Improvement**

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

#### **1.5. 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.

#### **1.6. Confidentiality**

**Commented [BR5]:** Confidentiality has been added to the Policy.

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Internal Auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

## **2. Primary ~~Roles~~ Services**

The Internal Audit function will have two roles:

### **2.1. Assurance Services:**

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.

### **2.2. Consulting Services:**

~~The role is~~ These services are 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.

## **3. Accountability**

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

- 3.1. 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.
- 3.2. Report significant issues related to the processes for controlling the City's overall business activities and provide information through active and constructive resolution.
- 3.3. Provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- 3.4. Coordinate and partner with the external auditors.
- 3.5. Confirm, at least annually, the organizational independence of the Internal Audit activity.

## **4. Reporting Relationships**

**Commented [BR6]:** This section was formally "Primary Roles". It has been changed to reflect Internal Audit's primary services. The words underlined are new. The words with a line through them are the ones removed.

Also, Assurance Services reflect Internal Audit's predominant type of engagement and is now listed before Consulting Services.

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

## **5. Authority**

5.1. The Director and staff of Internal Audit are authorized to:

- 5.1.1. 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.
- 5.1.2. Have unrestricted access to all records, physical properties, functions and personnel necessary to effectively discharge its responsibilities.
- 5.1.3. Allocate resources, determine scope of work and apply the techniques required to accomplish audit objectives.
- 5.1.4. 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.

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

- 5.2.1. Perform any operational duties for the City.
- 5.2.2. Initiate or approve accounting transactions external to the Internal Audit Department.
- 5.2.3. 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.
- 5.2.4. Develop and/or implement corporate policy. Internal audit can evaluate and provide comments on any existing policy or new policy being developed.
- 5.3. 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.
- 5.4. In the development and maintenance of a Code of Conduct, Fraud Policy or Risk Management Framework, Internal Audit should not assume ownership or

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overall operation of the supporting processes and policies. Internal Audit should provide guidance and education and evaluate the overall effectiveness of the processes.

## 6. Responsibility

The Director and staff of Internal Audit have responsibility to:

- 6.1. 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.
- 6.2. Implement the Internal Audit Risk Based Work Plan, as approved, including as appropriate any special tasks or projects requested by Management and Council.
- 6.3. Perform advisory services to assist Management and Council in meeting its objectives. Examples include facilitation, risk and control training and other advisory services.
- 6.4. 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.~~

- 6.5. 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.
- 6.6. Develop and maintain an audit team with versatile skill sets in order to respond effectively to Council and Management needs.
- 6.7. Develop Internal Audit performance measures and report results to Management and Council.
- 6.8. Administer the Anonymous Reporting System.
- 6.9. Manage, coordinate and investigate reports of fraud and misconduct.
- 6.10. Comply with City's obligations under the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).

**Commented [BR7]:** This responsibility was removed and became a section titled Quality Assurance and Improvement Program to be in conformance with the Institute of Internal Auditor's Professional Practices Framework.

**Commented [BR8]:** Responsibility 6.8 and 6.9 reflect the expanding areas of responsibility since the inception of the Anonymous Reporting System.



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## **7. Enterprise Risk Management**

### **7.1. Assurance Role**

Internal Audit's core responsibility is to provide independent and objective assurance to the Council and Management on the effectiveness of risk management activities.

### **7.2. Advisory Role**

Internal Audit may provide advisory services to support the development and maintenance of the City's ERM program. This may be done as long as Internal Audit's independence and objectivity is not threatened.

Allowable advisory services include:

- 7.2.1. Facilitating the identification and evaluation of risks.
- 7.2.2. Working with management in responding to risks.
- 7.2.3. Championing the development of an ERM program.
- 7.2.4. Helping coordinate ERM activities.
- 7.2.5. Consolidating reporting on risks.

## **8. 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.

### **1. Quality Assurance and Improvement Program**

Internal Audit will maintain a Quality Assurance and Improvement Program that covers all aspects of Internal Audit. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards. Internal Audit will evaluate whether the IIA's Code of Ethics are properly applied. The program will also assess the efficiency and effectiveness of the Internal Audit activity and identify opportunities for improvement.

The Director of Internal Audit will communicate to Management and Council on Internal Audit's Quality Assurance and Improvement program, including all external assessments conducted, a minimum of at least once every five years.

### **STANDARDS OF AUDIT PRACTICE**

Internal Audit will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), including the Code of Ethics, and the Definition of Internal Auditing. Internal Audit will manage, coordinate and investigate reports of fraud and misconduct in accordance with the standards of

**Commented [BR9]:** The section 7. Enterprise Risk Management (ERM) has been added to reflect the City's adoption of the ERM Policy

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~~the Association of Certified Fraud Examiners. In addition, Internal Audit will adhere to the City's policies and procedures and the Internal Audit Procedures Manual.~~

#### ADMINISTRATION

*Administered by the Office of the City Clerk.*

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#### Revision History

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**Commented [BR10]:** This section has been repositioned as the Policy Statement



# CITY OF VAUGHAN

## CORPORATE POLICY

**POLICY TITLE:** COMMITTEE OF THE WHOLE CHARTER FOR DEALING WITH  
AUDIT RELATED MATTERS

**POLICY NO.:** 02.C.08

<b>Section:</b>	Accountability & Transparency		
<b>Effective Date:</b>	Click or tap to enter a date.	<b>Date of Last Review:</b>	Click or tap to enter a date.
<b>Approval Authority:</b> Council	<b>Policy Owner:</b> Director, Internal Audit		

### POLICY STATEMENT

The Committee of the Whole is a decision-making committee who performs oversight of the City's governance, risk management and internal control practices.

### PURPOSE

The purpose of this policy is to assist the Committee of the Whole in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the City's process of monitoring compliance with laws, regulations and the City's code of conduct.

### SCOPE

One of the objectives of the Committee of the Whole is the discharge of governance, accountability and controllership responsibilities by ensuring risks are being appropriately addressed through strong governance, a risk/control and compliance framework, appropriate stewardship and an effective internal audit activity.

This includes reviewing and advising on:

1. The integrity, quality and transparency of the City's financial, management and operational information.
2. The effectiveness of the financial and management reporting processes.
3. The effectiveness of risk management and control processes and practices.

4. The performance of the Internal Audit activity and assessing the effectiveness of the External Audit function.
5. Ethical business conduct and compliance with the City of Vaughan's Employee Code of Conduct.

## LEGISLATIVE REQUIREMENTS

1. Municipal Freedom of Information and Protection of Privacy Act, R.S.O. 1990.

## DEFINITIONS

1. **Assurance:** 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.
2. **Compliance:** Conformity and adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.
3. **Control Environment:** 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:
  - 3.1. Integrity and ethical values.
  - 3.2. Management's philosophy and operating style.
  - 3.3. Organizational structure.
  - 3.4. Assignment of authority and responsibility.
  - 3.5. Human resource policies and practices.
  - 3.6. Competence of personnel.
4. **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.
5. **Ethics:** Conception of what is right and fair conduct or behaviour. 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.
6. **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.

- 7. 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.
- 8. 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.
- 9. 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.
- 10. Risk:** The possibility that events will occur and affect the achievement of strategy and business objectives.
- 11. Stewardship:** To hold something in trust for another. The activity or job of protecting and being responsible for something.

## **POLICY**

### **1. Authority**

The Committee of the Whole acts as a forum for communication among Council, Management, Internal Audit and the External Auditors. The Committee of the Whole, within the scope of its roles and responsibilities, is authorized to:

- 1.1. Authorize investigations into any matters it deems necessary.
- 1.2. Obtain any information it needs from Internal Audit, the External Auditor and Management.
- 1.3. Request the attendance of any employee or external party at Committee of the Whole meetings.
- 1.4. Discuss any matters with the Director, Internal Audit.
- 1.5. Approve decisions regarding the appointment and removal of the Director, Internal Audit.

### **2. Composition**

Refer to Procedure By-Law 7-2011.

### **3. Meetings**

Refer to Procedure By-Law 7-2011.

#### **4. Roles and Responsibilities**

The responsibilities of the Committee of the Whole may be revised by Council resolution. In each of its specific areas of responsibility, the Committee of the Whole, through Internal Audit or other means, has a responsibility to receive and evaluate information related to areas of risk or vulnerability within the City of Vaughan and the agreed upon management actions to effect change.

##### **4.1. The Committee of the Whole will carry out the following Internal Audit Activities:**

- 4.1.1. Review and approve the Internal Audit policy (02.C.07) and discuss if the appropriate authority access and reporting arrangements are in place.
- 4.1.2. Approve the risk based Internal Audit Work Plan recommended by the Director of Internal Audit.
- 4.1.3. Receive audit reports identifying key issues and the actions taken to address the issues.
- 4.1.4. Review the status of management action plans.
- 4.1.5. Review audit plan status.
- 4.1.6. Review the results of the annual client satisfaction survey report.
- 4.1.7. Review the results from the Anonymous Reporting System annual report.
- 4.1.8. Review the results of significant fraud allegations and investigations.
- 4.1.9. In conjunction with the Director, Internal Audit, review Internal Audit's compliance with the Standards for the Professional Practice of Internal Auditing, including adequate quality assurance practices, appropriate staffing and effective operational management.
- 4.1.10. Review the adequacy of resources to allow Internal Audit to carry out its responsibilities, including completion of the annual and longer-term audit plans.
- 4.1.11. Ensure clear and independent communication reporting lines exist between the Director, Internal Audit and the Committee of the Whole. This includes the ability to meet in closed session, in the

absence of management, regarding matters deemed allowable under the Municipal Act.

4.2. The Committee of the Whole will carry out the following External Audit Activities:

- 4.2.1. Provide approval for the appointment of the External Auditor for Financial Reporting.
- 4.2.2. Provide approval of the terms of engagement and the fees of the External Auditor.
- 4.2.3. Review the External Auditor's proposed audit scope and approach, including coordination of efforts with Internal Audit.
- 4.2.4. Review the independence of the External Auditor and confirm there are no conflict of interest issues for auditing and non-auditing services.
- 4.2.5. Consider the External Auditor's judgements about the quality and appropriateness of the City's accounting principles.
- 4.2.6. Respond to any inquiries the External Auditor may have as it relates to the Committee's view of fraud, fraud allegations and the Committee's role in the City's fraud program.
- 4.2.7. Confirm that the vendor performance evaluation of the external auditor, performed on a contractual basis, does not contain any nonconformance or other related issues

4.3. The Committee of the Whole Charter for Dealing with Audit Related Matters will be reviewed each year. Suggested changes will be reported to the Committee of the Whole for consideration and approval.

## ADMINISTRATION

*Administered by the Office of the City Clerk.*

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## Revision History

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