

Audit Committee Report

DATE: Monday, January 25, 2021

WARD(S): ALL

**TITLE: REQUEST FOR APPROVAL OF A SINGLE SOURCE
PROCUREMENT FOR AN EXTERNAL QUALITY ASSESSMENT**

FROM:

Kevin Shapiro, Director of Internal Audit

ACTION: DECISION

Purpose

To obtain approval for a single source procurement for Internal Audit's External Quality Assessment.

Report Highlights

- The International Standards for the Professional Practice of Internal Auditing (*Standards*) requires that an external quality assessment of the internal audit activity be conducted at least once every five years.
- As previously communicated in our Annual Report, Internal Audit has been performing an internal readiness assessment to prepare for the City's first external quality assessment.
- The external quality assessment will evaluate whether Internal Audit is in conformance with the Institute of Internal Auditor's (IIA) Standards and Code of Ethics.
- As the highest authority on the *Standards*, an external assessment conducted by the IIA would provide the most credible evaluation and valuable insight.
- Although the Director of Internal Audit has delegated authority under the City's Corporate Procurement Policy to approve this single source engagement, it is recommended that the Audit Committee approve this engagement award to minimize the risk of any perceived conflict.

Recommendations

1. That the single source procurement of Internal Audit's External Quality Assessment be awarded to the Institute of Internal Auditors.
2. That the Director of Procurement Services be authorized to finalize and sign any necessary agreements.

Background

Established in 1941, the IIA is an international professional association. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

The IIA provides internal audit professionals worldwide with authoritative guidance organized in the International Professional Practices Framework (IPPF) as mandatory guidance and recommended guidance. The mandatory elements of the IPPF are:

- International Standards for the Professional Practice of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics

Conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The purpose of the Standards is to:

- Guide adherence with the mandatory elements of the International Professional Practices Framework.
- Provide a framework for performing and promoting a broad range of value-added internal auditing services.
- Establish the basis for the evaluation of internal audit performance.
- Foster improved organizational processes and operations.

The Standards are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that are internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the Standards.

The *Standards*, together with the Code of Ethics, encompass all mandatory elements of the International Professional Practices Framework; therefore, conformance with the

Code of Ethics and the Standards demonstrates conformance with all mandatory elements of the International Professional Practices Framework.

The *Standards* comprise two main categories: Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

The *Standards* apply to individual internal auditors and the internal audit activity. All internal auditors are accountable for conforming with the standards related to individual objectivity, proficiency, and due professional care and the standards relevant to the performance of their job responsibilities. Chief audit executives are additionally accountable for the internal audit activity's overall conformance with the Standards¹.

Previous Reports/Authority

Not applicable.

Analysis and Options

As part of conformance to the IIA *Standards* and the City's Internal Audit Policy, the Director of Internal Audit is responsible for developing and maintaining a quality assurance and improvement program that covers all aspects of the internal audit activity. It is designed to enable an evaluation of the internal audit activity's conformance with the IIA *Standards* and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The quality assurance and improvement program must include both internal and external assessments.

Internal assessments are conducted by the Director of Internal Audit and are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards.

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

Internal Audit has performed an internal quality readiness assessment to prepare for the City's first external assessment

¹ Additional information about the IIA's IPPF and the International Standards for the Professional Practice of Internal Auditing can be found at <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>

Prior to commencing an external assessment, the IIA recommends that the Internal Audit department perform a self assessment to gauge the department's current level of conformance with the *Standards* and remediate any identified gaps.

The following outline the internal readiness assessment activities conducted to date:

- Developed standard tools, templates and a quality assurance checklist to conduct the assessment.
- Updated and revised the department's standards and practices manual to reflect changes in the IIA's IPPF framework.
- Starting with the Social Media Audit in 2017, all completed audits have been assessed using the quality assurance checklist and are in conformance with the International Standards for the Professional Practice of Internal Auditing.
- The Annual Review Checklists for 2017, 2018 and 2019 have been completed, and Internal Audit is in conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Annual Review Checklist for 2020 is in progress.
- Drafted the Committee Charter for Audit Related Matters which was designed to provide guidance to the Members of the Committee of the Whole on carrying out their governance, accountability and controllership responsibilities. This Charter was approved by Council on June 29, 2020. It was subsequently amended and renamed to the Audit Committee Charter upon Council approval of establishing an Audit Committee. The amended Audit Committee Charter was approved by Council on December 15, 2020.
- The revised Internal Audit Policy was approved by Council on June 29, 2020. The policy was 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 IIA's Quality Services Branch Offers Quality Assessment Services

The IIA's Quality Services branch maintains an expert team of quality assessors who have excellent credentials and many years of combined experience performing external quality assessments. These audit professionals are recognized quality assessment leaders. They guide internal audit practitioners in collaboration with The IIA's methodology to perform assessments for Fortune 500 companies, government agencies, and small businesses in a wide variety of industries across the globe. The IIA uses a consultative approach and share their extensive knowledge and insight regarding

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effective practices for internal audit activities. They also have access to a global benchmarking database, and a repository of successful practices.

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. Internal Audit will be seeking the latter, which is consistent with our municipal benchmarking.

With a full external assessment, an independent assessment team of experts conducts surveys, interviews, and workpaper reviews leading to a documented opinion on conformance with the Standards, any observed opportunities for continuous improvement, and recommendations for adding value to the organization.

The Self-assessment with Independent Validation (SAIV) approach also meets the requirements of the *Standards* for an external assessment once every five years. Under this approach, Internal Audit would be responsible for completing a self-assessment per the IIA's Quality Assessment Manual for the Internal Audit Activity. IIA Quality Services, then provides independent validation services delivered by a qualified internal audit professional. This independent assessor would review the self-assessment, substantiates the work completed by Internal Audit, makes an on-site visit, interviews senior management, and either co-signs Internal Audit's report regarding conformance to the Standards or issues a separate report on the disparities.

Although the SAIV requires more resources of Internal Audit, this approach can be more economical than a full scope quality assessment while still meeting the requirements of the *Standards*.

To ensure openness and transparency, it is recommended that the Audit Committee approve this engagement award

According to section 4.2.3 of the City's Corporate Procurement Policy PS-003, a single source procurement means that there is more than one source of supply in the open market, but only one source is recommended due to predetermined and approved specifications. Section 4.2.4 (h) states that a procurement may be conducted using a Single Source process if the goods, services and/or construction are available from more than one source, but there are valid and sufficient reasons for selecting one vendor in particular, as the required goods, services and/or construction are to be supplied by a particular vendor(s) having special knowledge, skills, expertise or experience. As the external assessment is based on the IIA's *Standards*, the IIA would qualify as a vendor having the specialized knowledge, skills expertise or experience.

Based on discussions with Directors of Internal Audit at other local municipalities, the cost of a SAIV from other providers can range between \$25,000 - \$40,000. The quote received from the IIA is \$13,800 US.

Although the Director of Internal Audit has the delegation of authority to award this single source engagement to the IIA under the City's Corporate Procurement Policy PS-003, it

is recommended that the Audit Committee approve this engagement award to minimize the risk of any perceived conflict.

Financial Impact

The estimated cost for retaining the IIA to conduct the SAIV external assessment is \$13,800 US. Internal Audit has funds allocated for this project in the department's approved 2021 budget.

Broader Regional Impacts/Considerations

Not applicable.

Conclusion

The International Standards for the Professional Practice of Internal Auditing (*Standards*) requires that an external quality assessment of the internal audit activity be conducted at least once every five years. Internal Audit has performed an internal readiness assessment to prepare for the City's first external quality assessment. Consistent with our jurisdictional scan, Internal Audit has opted to conduct a self-assessment and have an independent external assessor validate the assessment's results. Having the highest authority and expertise, Internal Audit's recommendation is to single source the IIA for the external assessment.

Upon approval, Internal Audit will complete the self-assessment per the IIA's Quality Assessment Manual for the Internal Audit Activity. The IIA's external assessor is tentatively scheduled to begin advanced preparation in August. Their proposed-on site work is tentatively scheduled for late October. This work might be performed virtually instead, depending on the evolving conditions due to the COVID-19 pandemic. The final report would tentatively be complete in December 2021, with presentation to the Audit Committee in January 2022.

Attachments

Not applicable.

Prepared by

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Approved by

A handwritten signature in black ink, appearing to be 'K. Shapiro', with a long horizontal line extending to the right.

Kevin Shapiro, Director of Internal Audit