



INTERNAL AUDIT REPORT

Self Assessment with Independent Validation

November 2021

Independent Validation by Institute of Internal Auditors Quality Services

Report on Self-Assessment of the City of Vaughan's Internal Audit Activity October 12, 2021

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Background

The *International Standards for the Professional Practice of Internal Auditing* requires that an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The quality assessment can be accomplished through a full external assessment or a self-assessment with independent validation.

The Director, Internal Audit discussed the form and frequency of the quality assessment, as well as the independence and qualifications of the external assessor or assessment team from outside the organization, including any potential conflicts of interest with the Audit Committee. Upon consultation and agreement by the Audit Committee, the Internal Audit department of the City of Vaughan conducted a self-assessment of its Internal Audit activity and selected the Institute of Internal Auditors' (IIA) Quality Services as the qualified, independent external assessor to conduct a validation of the self-assessment of Internal Audit at the City of Vaughan.

The City of Vaughan is located in the Regional Municipality of York with a population of over 335,000. In 2021, the City's budget included an operating budget of \$488.8 million in gross expenditures and capital investments of \$290.8 million to support and advance the Mayor and Member of Council's long-term vision. The City employs approximately 1700 employees and operates more than 100 City-owned properties.

Internal Audit is an independent, objective activity designed to add value and improve the City of Vaughan's operations. Internal Audit reports functionally to Council and administratively to the City Manager.

Opinion as to Conformance with the *Standards* and the Code of Ethics

It is our overall opinion that the Internal Audit activity generally conforms with the *Standards* and the Code of Ethics. A detailed list of conformance with individual standards and the Code of Ethics can be found on page 12.

The IIA's *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when evaluating the internal audit activity: "Generally Conforms," "Partially Conforms," and "Does Not Conform." The ranking of "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics. "Partially Conforms" means that deficiencies in practice are noted that are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics and are significant enough to seriously impair or preclude the internal audit activity from

performing adequately in all or in significant areas of its responsibilities. A detailed description of conformance criteria can be found on page 16.

Objectives, Scope, and Methodology

Objectives

- The objective of the Quality Assessment was to assess Internal Audit's conformance with the Standards and the Code of Ethics.
- Internal Audit also evaluated its effectiveness in carrying out its mission (as set forth in the Internal Audit Policy and expressed in the expectations of Members of Council and the Senior Leadership); identified successful internal audit practices demonstrated by Internal Audit; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.
- An external independent assessor validated the results of Internal Audit's self assessment. The main focus was to validate the conclusion of Internal Audit related to conformance with the *Standards* and the Code of Ethics. They also reviewed Internal Audit's observations related to successful internal audit practices and opportunities for continuous improvement. They offered additional observations as they deemed appropriate.

Scope

- The scope of the Quality Assessment included Internal Audit, as set forth in the Internal Audit Policy and approved by the Audit Committee, which defines the purpose, authority, and responsibility of Internal Audit.
- The Quality Self-Assessment was concluded on October 12, 2021 and the validation concluded on October 27, 2021. The self-assessment and validation provide senior management and the Audit Committee with information about Internal Audit as of those dates.
- The Standards and the Code of Ethics in place and effective as of October 12, 2021 were the basis for the Quality Assessment.

Methodology

- Internal Audit compiled and prepared information consistent with the methodology established in the Quality Assessment Manual for the Internal Audit Activity. The manual is an internationally accepted framework for assessing internal audit activities.

- This information included completed and detailed planning guides, together with all supporting documentation; an evaluation summary, documenting all conclusions and observations; and the self-assessment report by Internal Audit.
- Internal Audit identified key stakeholders (Internal Audit staff, Senior Leadership, Council, and the Audit Committee) and sent surveys to each of the individuals identified. The results were tabulated by IIA Quality Services, and IIA Quality Services is to maintain confidentiality in responses. Survey results were shared with Internal Audit during their validation process.
- Prior to commencement of the on-site validation portion of the Internal Audit self-assessment, IIA Quality Services held a preliminary meeting with Internal Audit to discuss the status of preparation of the self-assessment, identification of key stakeholders to be interviewed during the on-site validation, and finalization of logistics related to the Quality Assessment.
- To accomplish the objectives, IIA Quality Services reviewed information prepared by Internal Audit and the conclusions reached in the self-assessment report. IIA Quality Services also conducted interviews with selected key stakeholders, including the Audit Committee Chair, Senior Leadership of the City of Vaughan, and Internal Audit management and staff; reviewed a sample of audit projects and associated workpapers and reports; reviewed survey data received from City of Vaughan stakeholders, and Internal Audit management and staff; and prepared diagnostic tools consistent with the methodology established for a Quality Assessment in the *Quality Assessment Manual for the Internal Audit Activity*.
- The validators prepared an “Independent Validation Statement” to document conclusions related to the validation of Internal Audit’s self-assessment. This statement is included as Attachment 1 in the overall report.

Summary of Observations

Internal Audit believes that the environment in which we operate is well structured and progressive, where the *Standards* are understood, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation.

Observations are divided into three categories:

- **Successful Internal Audit Practices** – Areas where Internal Audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these items is intended to provide Internal Audit stakeholders with a view on

things Internal Audit is doing in a leading practice manner when compared to other internal audit activities.

- **Gaps to Conformance** – Internal Audit’s self-assessment requires areas identified where Internal Audit is operating in a manner that falls short of achieving one or more major objectives and attains an opinion of “partially conforms” or “does not conform” with the Standards or the Code of Ethics be reported with recommendations for actions to address the gap. **No gaps to conformance with the Standards or Code of Ethics were identified.**
- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of Internal Audit’s infrastructure and processes. These items do not indicate a lack of conformance with the Standards or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the Standards or Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities. A management response and an action plan to address each opportunity noted can be found on page 10.

Successful Internal Audit Practices

1. Standard 1000 – Purpose, Authority, and Responsibility – The Internal Audit Policy is comprehensive and is consistent with the Mission of Internal Audit and the mandatory elements of The IIA’s International Professional Practices Framework. Especially noteworthy:
 - There is specific language that recognizes the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.
 - The Internal Audit Policy is reviewed annually and updated when changes in the *Standards* become effective.
 - The Internal Audit Policy was revised in 2020 to reflect Internal Audit’s responsibilities concerning fraud (Internal Audit’s role as the administrator of the Anonymous Reporting System), Internal Audit’s involvement in the City’s Enterprise Risk Management activities, and the establishment of Internal Audit’s Quality Assurance and Improvement program.
 - The Internal Audit Policy appropriately establishes the functional and administrative reporting relationship of the Director, Internal Audit, and specifically describes the nature of this functional relationship.
 - The Internal Audit Policy requires the Director, Internal Audit to confirm the organizational independence of Internal Audit to the Audit Committee annually.
 - The Internal Audit Policy describes the responsibility of the Director, Internal Audit to report results of the established Quality Assurance and Improvement program.
2. Standard 1100 – Independence and Objectivity – On the advice of the Director of Internal Audit, Council approved the establishment of an Audit Committee. A formal Terms of Reference and an Audit Committee Charter were developed and approved.
 - In 2019, the Finance, Administration and Audit Committee was merged into the Committee of the Whole. On the advice of the Director of Internal Audit, Council approved the establishment of an Audit Committee.
 - Internal Audit conducted a benchmarking exercise of comparable municipalities, which looked at Audit Committee composition, qualification of members, length of term, and meeting frequency.

- A formal Terms of Reference and an Audit Committee Charter were developed and approved.
 - The first Audit Committee meeting took place on January 25, 2021.
3. Standard 1200 – Proficiency and Due Professional Care – The Internal Audit department has matured over the years by hiring experienced Internal Audit professionals and providing staff with development opportunities.
- Hiring practices and provision of continuing professional development helps ensure engagements are performed with proficiency and due professional care.
 - Internal Auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.
 - Internal Audit staff members' skills and experience ensure Internal Audit has sufficient knowledge to evaluate the risk of fraud and the key Information Technology risks and controls.
 - Internal Auditors demonstrate their proficiency by having appropriate certifications and qualifications.
 - The Director, Internal Audit develops the work plan and budget while considering Internal Audit staff requirement to meet their respective Continuing Professional Education requirements and remain in good standing with their respective professional organizations.
4. Standard 1300 – Quality Assurance and Improvement Program and Standard 2300 – Performing the Engagement – The Quality Assurance and Improvement Program was established in 2017. Each completed engagement is reviewed and evaluated for conformance with the *Standards*.
- The Director, Internal Audit has developed and maintains a Quality Assurance and Improvement program that covers all aspects of the Internal Audit activity.
 - The Quality Assurance and Improvement program is designed to enable the evaluation of the Internal Audit activities conformance with the Standards and whether Internal Audit apply the Code of Ethics.
 - The Quality Assurance and Improvement program assesses the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement.

- The Director, Internal Audit encourages Audit Committee oversight in the Quality Assurance and Improvement program. There is evidence the Director, Internal Audit has communicated Quality Assurance and Improvement program results to Senior Leadership and the Audit Committee.
 - The Quality Assurance and Improvement program has internal and external components, including evidence of on-going and periodic assessments.
 - An annual quality assurance assessment for Internal Audit's activity has been performed since 2017 in preparation for a self-assessment with independent external validation.
 - A quality assurance checklist was developed and has been used to assess each completed engagement since 2017.
5. Standard 2000 – Managing the Internal Audit Activity – Internal Audit has developed a risk-based work plan aligned with the organization's strategies, objectives, and outcomes and key risks. The risk-based work plan incorporates feedback from SLT-E and members of Council.
- Internal Audit's contribution to the City of Vaughan's strategic plan is to provide governance and transparency assurance by performing an enterprise-wide risk assessment and developing an annual risk-based work plan.
 - The enterprise-wide risk assessment includes identification of the audit universe, and input from management and Council.
 - The enterprise-wide risk assessment considers trends and emerging issues which could impact the City.
 - The risk-based work plan approach includes factors such as size of program/function, financial and reputational exposure, and legal/regulatory requirements.
6. Standard 2100 – Nature of Work -- Internal Audit developed the Governance and Accountability Survey which promotes ethics and values within the City. It also fostered an environment where management now considers "soft skill" risks, which had not been something that had previously been strongly considered.
- The Governance and Accountability Survey consists of 25 questions asking respondents to voice their level of agreement to statements related to the City's Purpose, Commitment, Capability, Monitoring and Learning, and Ethics and Value. The survey has been successfully adopted into the Employee Engagement Survey.

7. The Stakeholder Survey Results – The IIA Quality Services shared the survey results with Internal Audit and indicated that the high response rates and overall positive responses were above the historical average of similar organizations. Specifically, responses to 21 of the 23 questions scored higher than average. The results support successful Internal Audit’s activity to add value and improve the organization’s operations. The results are also testament to the positive and evolving relationship between Internal Audit, the Audit Committee, Council, and Senior Leadership. The survey results are included in report as Attachment 3.

Gaps to Conformance with the *Standards* or the Code of Ethics

No gaps to conformance with the *Standards* or Code of Ethics were identified.

Opportunities for Continuous Improvement

1. Standard 1000 – Purpose, Authority, and Responsibility – Although not required by the *Standards*, establishing the nature of the administrative reporting relationship in the Internal Audit Policy is a progressive and contemporary industry practice. Although the reporting relationships are reported annually in the department’s annual report, clearly establishing the two reporting relationships, functionally to Council and administratively to the City Manager in the Internal Audit Policy would provide a clear picture to stakeholders supporting not only the purpose, authority, and responsibility of Internal Audit, but the independence and objectivity.

IA Response and Action Plan: The Director of Internal Audit agrees with this opportunity for continuous improvement. During the annual review of the Internal Audit Policy, the Director of Internal Audit will add a definition to the policy defining the difference between functional and administrative reporting.

2. Standard 2000 – Managing the Internal Audit Activity – Add procedures to the Procedure Manual to provide a framework to ensure consistent vendor oversight. Internal Audit has been the sole provider of assurance services for the City of Vaughan. However, recent Internal Auditing engagements have presented opportunities to leverage the expertise of third parties to assist with more technical aspects of Information Technology Audits. For example, in 2021, external consultants were hired to conduct a penetration exercise to test the City’s IT Security. The Internal Audit Procedure Manual indicates that the Director of Internal Audit is required to ensure any outside consultants have the knowledge, independence, and skills necessary to conduct an audit engagement. This is accomplished through the PS-003 Corporate Procurement Policy. Opportunities exist to add a section in our procedures manual to reference this section of the Procurement Policy with respect to oversight over vendor management and performance.

IA Response and Action Plan: The Director of Internal Audit agrees with this opportunity for continuous improvement. The Internal Audit Procedure Manual is our operational framework for conformance with the *Standards* and guidelines to follow for best practices. The manual is reviewed annually and will be revised in the first quarter of 2022 to reference the PS-003 Corporate Procurement Policy.

3. Standard 2000 – Managing the Internal Audit Activity – Conduct a strength, weakness, opportunities, and threat (SWOT) analysis on an annual basis. As part of the Office of Transformation and Strategy’s initiative, Internal Audit participated in a SWOT analysis exercise in 2019. The next Corporate-wide SWOT analysis exercise is planned for 2022. As an opportunity for continuous improvement, Internal Audit will conduct a departmental SWOT analysis on an annual basis.

IA Response and Action Plan: The Director of Internal Audit agrees with this opportunity for continuous improvement. Internal Audit conducts an Entity-wide Risk Assessment to build the annual risk-based work plan and identify emerging issues. The Internal Audit activity would also benefit from an annual SWOT assessment to optimize the efficiency and effectiveness of Internal Audit activity. SWOT activities will include all Internal Audit staff members and results will be communicated during a monthly staff meeting in the first quarter of 2022.

4. Standard 2200 – Engagement Planning – Ensure the Information Gathering Checklist template is added as a supplemental planning tool.

IA Response and Action Plan: The Director, Internal Audit agrees with this opportunity for continuous improvement. The Information Gathering Checklist has already been communicated to the Internal Audit team as a supplemental tool and the Internal Audit Procedures Manual will be updated accordingly.

5. Code of Ethics – In addition to having the Internal Audit group annually sign off on the City’s Employee Code of Conduct and the Code of Ethics for professional memberships, documentation to support this sign off will be retained by the department.

IA Response and Action Plan: The Director of Internal Audit agrees with this opportunity for continuous improvement. The requirement to annually review and confirm the Internal Audit Code of Ethics will be included in the next revision of the Internal Audit Procedure Manual. This practice will commence in January 2022.

Evaluation Summary and Rating Definitions

	GC	PC	DNC
Overall Evaluation	X		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		

1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		

2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		

2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		

Rating Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.