

**CITY OF HAMILTON
QUALITY ASSESSMENT REVIEW – 2014-06
EXTERNAL VALIDATION OF THE 2012 SELF-ASSESSMENT REVIEW – FOLLOW UP**

IIA STANDARDS				
#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2014)
1.	<p>1321 – Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i>”</p> <p>The chief audit executive may state that the internal audit activity conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> only if the results of the quality assurance and improvement program support this statement.</p> <p>The term is not currently used in audit reports.</p>	<p>That the phrase as indicated in IIA Standard 1321 be used in audit reports on a go-forward basis.</p>	<p>Agreed. Audit reports to Committee and Council will include the phrase of conformity with International Standards for the Professional Practice of Internal Auditing beginning Quarter 2, 2013, where supported.</p>	<p>Completed. Reports now contain this information. The phrase “Audit Services conducted this audit/review/follow up assignment in conformity with the <i>International Standards for the Professional Practice of Internal Auditing</i>. Audit Services believes that the work performed provides a reasonable basis for the audit/review/follow up comments and conclusions.” has been included in reports since September 2013.</p>

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2.	<u>2010.A1</u> – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the Board must be considered in this process.	That the audit universe be updated annually to reflect the most current strategies and direction of the organization.	Agreed. A risk assessment was carried out in 2012 and used for the 2013 work plan. Due to the amount of resources required to carry out such an assessment, a complete risk assessment cannot be undertaken annually. Attempts will be made to update key factors and strategic changes before preparing the annual work plan, as time and resources allow.	Completed. Risk factors were updated in 2013 for use in the 2013 work plan. Key factors and strategic changes will continue to be updated annually for planning purposes.
3.	<u>2110.A1</u> – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.	That consideration be given to including aspects of the City's Code in some audits or a full-fledged audit of the Code be done.	Agreed. The 2013 Audit Work Plan includes a review of Ethics and Ethical Processes. Expected Completion – June, 2013.	Completed. A Corporate Ethics Review took place in 2013 and the findings went to the Audit, Finance and Administration Committee as part of Report CM13019 on December 9, 2013.

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4.	<p><u>2110.A2</u> – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.</p>	<p>That a review of the City’s information technology governance be done to conform to this standard.</p>	<p>Agreed. Audit Services’ review of IS governance is being delayed until this issue has been dealt with by a corporate study being considered. Once the recommendations of the study have been implemented, this audit will be placed on the Work Plan.</p>	<p>In Progress. A presentation regarding the importance of IT governance was made to SMT in March 2014. A corporate-wide IT Governance Review is currently in progress. An audit of IT governance cannot occur until this review has been completed.</p>
5.	<p><u>2120.A2</u> – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.</p>	<p>That a fraud risk assessment be an integral component of the overall risk management initiative.</p>	<p>Agreed. A fraud factor will be rated and evaluated in the risk assessment carried out for each audit beginning in/after quarter 2, 2013. Management’s assessment of areas of potential fraud will also be used in the development of the annual work plan.</p>	<p>Completed. Fraud risk is now evaluated and documented in each audit file as part of the risk analysis procedures that are completed.</p>
6.	<p><u>2120.C1</u> – During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.</p> <p>Consulting engagements have not been an area of focus for Audit Services.</p>	<p>That audit staff be alert to the risks associated with the consulting engagement.</p>	<p>Not Applicable. Due to resource constraints, consulting engagements have not been considered as an area of focus.</p>	<p>The original response was “Not Applicable”. Therefore, no further work was required.</p>

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LEADING PRACTICES				
#	OBSERVATIONS OF EXISTING SYSTEM	RECOMMENDATION FOR STRENGTHENING SYSTEM	MANAGEMENT ACTION PLAN	FOLLOW UP (APRIL 2014)
1.	<p>The current Audit Committee Charter is basically divided into three broad categories: composition, mandate, and specific duties. There is a high level reference made to the internal audit and external audit.</p> <p>However, it is deficient in some ways. For example, it is not fully structured to show its range of responsibility and it does not mention of other responsibilities.</p>	<p>That the Model Audit Committee charter in the IIA's QA Manual be used as a guide to revise the Audit Committee Charter to show:</p> <ul style="list-style-type: none"> • Purpose • Authority • Meetings • Reporting responsibility <p>The specific duties should be categorized into:</p> <ul style="list-style-type: none"> • Financial Reporting • Internal Control • Internal Audit • External audit • Compliance • Other Responsibilities 	<p>Agreed. This recommendation and supporting documentation will be referred to the City Clerk who is responsible for Committee Terms of Reference.</p>	<p>Completed. Audit Services forwarded information to the City Clerk's Division regarding this matter in June 2013. It will be considered when the Clerk prepares Committees' Terms of Reference after the next election. – December, 2014.</p>
2.	<p>The Internal Audit charter is comprehensive but it lacks mention of information technology standards (ISACA Standards) under which IT audits are conducted.</p>	<p>That under the "Professional Standards" section of the charter, Audit Services consider inserting ISACA Standards as well.</p>	<p>Disagreed. As there are no ISACA professionals on staff and few IS specific audits are carried out, these standards, although they may be considered, are not mentioned in the charter. Other sources of "standards" may be also considered.</p>	<p>The original response was "Disagreed". Therefore, no further follow up work was required.</p>

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3.	<p>The annual risk assessment process is well-documented. While appropriate risk assessment practices have been established for Audit Services to obtain management's input and address high risk areas during audits, the methodology has not been tailored to address information technology (IT) risks for IT audits.</p> <p>The City uses PeopleSoft financial systems (Procurement; HR; Payroll; General Ledger; Financial Reporting).</p>	<p>That the key risks be identified in these applications and in overall general information technology areas.</p>	<p>Agreed. IS risk, where appropriate, will be factored into the risk assessment carried out for each audit beginning quarter 3, 2013. In developing the annual work plan, management's views on general information technology areas and associated risks will be considered.</p>	<p>Completed. Information technology risk is now evaluated and documented in each audit file as part of the risk analysis procedures that are completed.</p>

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3.	<p><u>(Continued)</u> One audit out of 18 or 5% of audits planned for this year is IT related.</p>	<p>That a formal risk assessment methodology relating to information technology audits should be developed and used as part of the annual risk assessment process. The IIA's GTAG #4 (IT Risk Assessment) should be referenced as it offers some practical advice on how to go about doing an IT risk assessment.</p>	<p>Agreed. In the case of a direct IS audit, various methodologies (including GTAG #4) will be considered in carrying out the particular IS risk assessment.</p>	<p>Completed. One direct IT project was completed in 2013. The standard project risk assessment was completed. The project was an Information Security and Identity and Access Management Review. In addition to GTAG #4, the IIA's GTAG #15 (Information Security Governance) and GTAG #9 (Identity and Access Management) were utilized during the audit planning and risk assessment processes.</p>

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4.	<p>Critical automated audit tools like ACL and CAATs are not being used by the department.</p> <p>In today's technological era where every aspect of business is driven by technology, risks and controls need to be evaluated. Automated audit tools enable many areas to be audited that would not otherwise be reviewed.</p> <p>The City is not getting the full value of its investment in internal audit when such tools are lacking.</p> <p>Benchmarking information shows that over 65 percent of public sector organizations use automated audit tools in their audit departments.</p>	<p>That the purchase of ACL data analysis software be considered. In addition, Information Services should work closely with Audit staff to develop specific queries in PeopleSoft to review transactions (e.g. a query to check for duplicate payments).</p>	<p>Agreed. Audit Services has investigated some automated data analysis tools but the cost cannot be accommodated within the current budget. As an alternative, automated spreadsheet capabilities are utilized.</p> <p>In 2013, the work plan includes investigation and a pilot for continuous auditing queries which will be used to highlight unusual or unreasonable fluctuations, transactions and occurrences for further investigation. These queries will be used as an alternative to commercial data analysis software.</p>	<p>In progress. Automated spreadsheet capabilities are being utilized.</p> <p>A Continuous Auditing Program has been developed with the first project scheduled to take place in the summer of 2014.</p>

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5.	<p>Working paper files are not automated. With the thrust of a paperless environment, and the proliferation of technology, many audit shops are opting for the use of an established working paper software.</p> <p>More and more organizations are moving towards automating their working papers which offer effective audit and management trails and conformance with established standards and frameworks.</p> <p>The audit departments at Calgary and Oshawa use an established automated working paper software while Mississauga is currently in the process of selecting one.</p>	<p>That an automated working paper system be introduced.</p> <p>Paperless systems can improve the quality and efficiency of internal audits and foster new and creative approaches to auditing.</p> <p>Moreover, it saves on paper and files are retained electronically.</p>	<p>Disagreed. Many automated working paper systems are geared more to external audit working paper preparation. Inquiries made to other municipalities resulted in few confirmations that paperless systems were in consistent use. Cost for such a software package cannot be accommodated in the current budget.</p>	<p>The original response was "Disagreed". Therefore, no further follow up work was required.</p>

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6.	<p>There is no annual survey of management nor audit staff satisfaction survey.</p> <p>These are quality assurance measures to determine how audit is perceived and how satisfied are staff members.</p> <p>The results obtained can be used to improve the audit effort.</p> <p>Staff satisfaction surveys are used in audit departments at Mississauga, Calgary, and Oshawa.</p>	<p>That consideration be given to the introduction of an annual management survey to obtain management feedback on their perception of Audit Services and the audit effort.</p> <p>Even though Audit Services is small, an annual staff satisfaction survey should be introduced.</p>	<p>Alternatives implemented. Audit Effectiveness Questionnaires are sent out to auditees' management and staff upon the completion of every audit, seeking feedback re: the quality of the audit work carried out and the recommendations, the quality of auditor interaction and knowledge and any other comments that they wish to make.</p> <p>As for staff satisfaction, performance appraisals are conducted annually and within this review, staff are given the opportunity to voice and note their concerns regarding their positions, supervision and general satisfaction.</p>	<p>Alternatives Implemented. Audit Effectiveness Questionnaires were sent out for all applicable projects in 2013. Staff also have the opportunity to provide opinions during the performance appraisal process and throughout the year as part of an "open-door policy".</p>

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7.	<p>An Audit Effectiveness Questionnaire exists and is used after each audit to gauge feedback from the auditees on the effectiveness of the audit engagement.</p> <p>Although this is a good quality assurance tool, it needs to be enhanced.</p>	<p>That consideration be given to adding the following elements to the Audit Effectiveness Questionnaire:</p> <p>Audit Planning</p> <ul style="list-style-type: none"> • Suitability of audit scope; • Appropriateness of audit objectives; and • Communication of scope and objectives. <p>Fieldwork</p> <ul style="list-style-type: none"> • Extent of testing performed by auditor; • Depth of analyses and research done; • Engagement of management on audit findings; and • Flexibility of audit. <p>Reporting</p> <ul style="list-style-type: none"> • Practicality of audit findings; • Clarity of report; and • Timeliness of report. 	<p>Alternative Implemented/Disagreed. For the items under Audit Planning, the scope, objectives and approach are developed and shared with management as a standard audit procedure. For all of the items under Reporting and for the Engagement of Management under Fieldwork, these items are already included on the questionnaire. As to the research done and the extent of the testing performed, the auditee would have a difficult time gauging and assessing these without an audit techniques background.</p>	<p>Alternative Implemented/Disagreed. "Alternative Implemented" portion — The items listed in the original report were already being done at the time of the original review. "Disagreed" portion — No further work was required.</p>

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8.	<p>Elements of a file completion checklist are contained in each audit working paper file.</p> <p>However, a single checklist needs to be contained on one document and inserted in the file to ensure all elements of each phase of the audit – planning, fieldwork, and reporting – were indeed completed.</p>	<p>That a file completion checklist include the following:</p> <p>Audit Planning</p> <ul style="list-style-type: none"> • Scope and Objectives determined; • Risk/Control matrix done; and • Entrance conference held. <p>Audit Fieldwork</p> <ul style="list-style-type: none"> • Audit program executed; • Findings are documented and supported; and • Test are properly carried out. * <p>Reporting</p> <ul style="list-style-type: none"> • Draft report discussed with management; • Issues in report are properly supported; and * • Report has been issued within a reasonable time frame. * <p>Quality Assurance</p> <ul style="list-style-type: none"> • Review Notes have been cleared • All working papers have been properly signed off. * 	<p>Agreed. Seven of the 11 bullets presented are already included on a single page checklist entitled "Audit Planning Schedule" where the timing for each of the elements is compared between the planned completion date and the actual completion date. This schedule will be redrafted to include the specific missing elements indicated by the "*".</p>	<p>Completed. All of the items recommended in the original report have now been included in a revised version of the "Audit Planning Schedule".</p>

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9.	<p>Although all audit staff are professionally qualified, no one holds a certification in information technology auditing. The generally accepted designation in this field is the certified information systems auditor or CISA administered by the Information Systems and Audit Control Association (ISACA).</p> <p>Also, no one is a member of ISACA. There is at least one staff member in the audit department at the Cities of Mississauga, Calgary, and Oshawa with such a designation and membership.</p> <p>The greater risk here is that key risks and controls in an IT environment are not adequately addressed which could lead to potential losses.</p>	<p>That one audit staff member be identified and encouraged to pursue the CISA (certified information systems auditing) designation and become an ISACA member.</p>	<p>Agreed. The current staffing complement does not include a CISA or a member of ISACA. However, current staff have adequate IS knowledge to carry out basic key IS audits where they are planned. They are able to carry out proper risk and controls assessments in an IS environment (either as an individual audit or as part of an application/software used in the area of audit).</p> <p>As an alternative, candidates for future vacancies will be possibly screened for this designation.</p>	<p>Completed. Professional staff maintain appropriate qualifications to work as internal auditors. The current staffing complement now includes one CISA.</p>

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10.	<p>There is a comprehensive Audit Policy Manual that has a wealth of information.</p> <p>However, it can even be made better if it is expanded to cover additional internal audit-related material to help guide audit staff members.</p>	<p>That the following be included in the manual which it currently lacks:</p> <ul style="list-style-type: none"> • IT audit methodology and standards including the use of computer assisted audit techniques or CAATs; • CoBIT 4.1 Framework; • COSO Framework; and • COSO-ERM Framework. <p>Also, some phrases need to be changed for consistency. E.g., "Audit & Administration Committee" to "Audit, Finance, and Administration Committee" and "IIA Professional Practices Framework" to "IIA <i>International Professional Practices Framework</i> (IPPF)".</p>	<p>Agreed. The Audit Services and Procedures Manual will be updated to reference additional sources of information. However, no references to CAATs will be made as this methodology is not available at the City. Implementation date – end of quarter 2, 2013.</p> <p>The Audit Services Policies and Procedures Manual has been updated in February, 2013 to include these changes.</p>	<p>In Progress. Revisions have taken place and been approved. Final editing is ongoing, with an expected completion date of September 2014.</p>

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11.	<p>Audit Services does not currently have its own intranet on the company's website which is being revamped. However, when it is developed, Audit Services should populate its site with some critical information that will help communicate and lift the profile of the audit effort throughout the City.</p>	<p>That the Audit site on the company's intranet should be used as the principal method to communicate developments and changes in the profession and related areas to include the following:</p> <ul style="list-style-type: none"> • Audit Charter; • Audit Committee Charter; • IIA <i>Standards</i>; • Audit process; • Types of audit; • Whistle-blowing effort; • Staff profiles; • Links to other sites (IIA, Audit Net, ISACA); and • Developments and pronouncements. <p>Soft copies of any relevant seminar handouts, ideas, and journal articles should all be shared by posting these on the site.</p>	<p>Agreed. The Director of Audit Services has already spoken to the web author who will be responsible for Audit's material in the web re-development. The noted items will be considered for possible inclusion in Phase 2 of the work. Expected Implementation – late 2013.</p>	<p>Initiated. The corporate-wide web redevelopment project is still ongoing. No upgrades are being made to the intranet's web content until the new website has been launched. The new website's launch is anticipated to occur in Q2, 2014. Timelines for updating web content have not been provided to Audit Services. Therefore, an expected completion date cannot be provided at this time.</p>

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