



**CITY OF HAMILTON**  
**CITY MANAGER'S OFFICE**  
**Office of the City Auditor**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	October 3, 2019
<b>SUBJECT/REPORT NO:</b>	Reporting Process for Office of the City Auditor Audit Assurance Reports (AUD19006) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Brigitte Minard CPA, CA, CIA, CGAP (905) 546-2424 Ext. 3107  Charles Brown CPA, CA, CPA (Illinois) (905) 546-2424 Ext. 4469
<b>SUBMITTED BY:</b>	Charles Brown City Auditor Office of the City Auditor
<b>SIGNATURE:</b>	

**RECOMMENDATION(S)**

That the Reporting Process for City Audit Assurance Reports attached as Appendix “A” to Report AUD19006, be approved.

**EXECUTIVE SUMMARY**

The current reporting and distribution process for Office of the City Auditor Audit Assurance reports (summarized in Appendix “A” of Report AUD19006) provides for the distribution of the draft audit reports to management for response. Management responses to the recommendations are contained in the final audit reports. This format is considered a best practice and provides valuable and timely information to members of the Audit, Finance and Administration Committee in their oversight role.

**Alternatives for Consideration – See Page 3**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

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Financial: None.  
Staffing: None.  
Legal: None.

**HISTORICAL BACKGROUND**

A reporting process for City Audit Reports has been in place at the City of Hamilton since the original process was approved at the January 12, 2005 Council Meeting.

At the Audit and Administration Committee meeting of February 7, 2007, the Committee asked for clarification regarding the reporting process of the Internal Auditor. Staff were directed to review the current reporting process and report back to Committee with various options and/or alternatives. A process was approved by Council on March 28, 2007, approving the process that was laid out in report CM07014.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

Municipal Act, 2001 sections 222.19 to 223.23  
Office of the City Auditor Charter (AUD19005)  
City of Hamilton By-law 19-180 (City Auditor By-law)

**RELEVANT CONSULTATION**

The reporting process for the City of Toronto, City of Winnipeg and the Auditor General of Canada were previously used for comparison purposes under the Analysis and Rationale section.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

As indicated in the current Office of the City Auditor Charter (AUD19005), the City's Office of the City Auditor is guided by the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors and/or legislative requirements, as applicable, for audit assurance work.

Standard 2440 and the related Implementation Guidance for Standard 2440, states "*The chief audit executive must communicate results to the appropriate parties*" and "*The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated.*" At the City of Hamilton, the Chief Audit Executive (CAE) is the City Auditor.

Examples of how this can be accomplished include: a post-engagement meeting (i.e. closing meeting) in which the results are discussed with management and staff of the audited area; or a review by management of the draft report with observations and recommendations to management for the audited process or service. This helps to ensure that there have been no misunderstandings or misinterpretations of fact by providing the opportunity for the auditee to clarify specific items and to express views on the conclusions and recommendations.

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Comparisons of the current City of Hamilton process for the distribution of audit reports against the practices of other government audit groups was previously conducted by the Office of the City Auditor. Most audit organizations follow a similar process. An informal confidential draft report is forwarded to management for review and input. This input is incorporated into the report, creating a formal draft report which is again forwarded to management, now for responses to the recommendations. The management responses are included in the formal draft, next to each recommendation, which is presented to the Audit, Finance and Administration Committee. The report does not become a public document until the final report goes to Committee and Council.

In the United States, for government internal audit groups operating under the *Government Auditing Standards*, audit reports are required to include pertinent views of the officials of the audited organization concerning the auditor's issues and recommendations and their planned corrective action. Written responses are typically received from the appropriate management representative of the audited entity and submitted to the Audit Committee. Even though there is not statutory requirement for Canadian internal auditors in government to follow such a standard, it is considered a best practice.

The option recommended in this report is a revised version of the existing practice that has been updated to include information about the broader range of work that the Office of the City Auditor now performs.

**ALTERNATIVES FOR CONSIDERATION**

1. The process described in Appendix "A" to Report AUD19006 is recommended. It compares to the methods used by other government audit groups, provides timely and comprehensive information to the Audit, Finance and Administration Committee and Council. It also allows for staff to be properly prepared to answer Councillors' questions.
2. An alternative method whereby audit issues and recommendations will be discussed with management and staff of the audited entity in a closing meeting, but the actual audit report will go only to Committee without a Management Response. Committee and Council will then direct management to formulate a response and bring back a separate report to a subsequent Committee meeting. This is not recommended as the delay in responding to the recommendations to a later date diminishes the impact of the audit report and the need for timely information regarding implementation plans. It also differs from practices of several comparators in that management's responses are not included in the auditor's report.
3. Another alternative would see no discussion of audit results with management and staff of the audited entity. The audit report would go directly to the Audit, Finance and Administration Committee and Council. Direction would be given for management to then subsequently respond to the report. This is not recommended

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as there would be no opportunity for auditees to ensure that there were no misinterpretations or misunderstandings in the detail before the document was made public. This option also contravenes the prescribed standard used for the practice of internal auditing which states that results and recommendations should be discussed with appropriate staff before issuing final reports.

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Community Engagement and Participation**

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

**Our People and Performance**

Hamiltonians have a high level of trust and confidence in their City government.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report AUD19006 Reporting Process for Office of the City Auditor Audit Assurance Reports

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