

CITY OF HAMILTON

**CITY MANAGER'S OFFICE
Audit Services Division**

TO: Chair and Members Audit, Finance and Administration Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: May 13, 2013	
SUBJECT/REPORT NO: External Validation of the 2012 Self-Assessment Review (AUD 13017) (City Wide)	
SUBMITTED BY: Ann Pekaruk Director, Audit Services City Manager's Office	PREPARED BY: Ann Pekaruk 905-546-2424 x4469
SIGNATURE:	

RECOMMENDATION

- (a) That the "External Validation of the 2012 Self-Assessment Review" report, attached as Appendix "A" to Report AUD13017, be received;
- (b) That the Management Action Plans as detailed in Appendix "A" of Report AUD13017 be approved; and
- (c) That staff be directed to report back to the Audit, Finance and Administration Committee in one year's time with respect to the status of the implementation of the agreed to recommendations.

EXECUTIVE SUMMARY

A consultant was retained to provide a third party validation of the 2012 self-assessment work carried out by the City's Audit Services Division. Such a validation is meant to provide assurance that the internal audit activity conforms with the Institute of Internal Auditors' (IIA) Standards and Code of Ethics and to help the audit process add value and improve the City's operations.

The consultant's overall opinion stated that the Audit Services Division's activity "generally conformed" to the IIA Standards and Code of Ethics. "Generally conforms" is the top rating (of three available). A detailed list of conformance criteria, Audit Service's resultant assessment and deficiencies as well as recommendations based on best practices of other municipalities are attached as Appendix "A" to this Report AUD13017.

Alternatives for Consideration – Not Applicable

FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

One of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing requires internal audit shops to have independent quality assessments every five years. In 2005, Booker and Associates carried out an external review of the City's Internal Audit Division and its first quality assessment. This is now the second time Audit Services has undergone a quality assessment, however in a different form. As the audit operation is small and resources may be more restrictive, the IIA allows for self-assessment by the audit staff with an independent third party validation. A consultant, Lal Balkaran, well experienced in the audit field as well as in carrying out quality assessment reviews and validations was retained under the appropriate City procurement policy.

Another IIA Standard states “The chief audit executive (Director of Audit Services) must communicate the results of the quality assurance and improvement program (which includes the Validation of the Quality Assessment Review) to senior management and the board (Council)”. This report satisfies this requirement.

POLICY IMPLICATIONS/LEGISLATED REQUIREMENTS

None.

RELEVANT CONSULTATION

None.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

Process

A consultant, Lal Balkaran, was engaged to conduct an independent validation of the City of Hamilton Audit Services Division’s self assessment. The Supervisor of Audit Services completed advance preparation material and gathered pertinent data and documentation about the City and its internal audit activity. This material was provided to the consultant for his review and validation. In addition, the consultant reviewed Audit’s risk assessment and planning process, audit tools and methodologies, project management and staff development processes and a sample of audit working papers and reports. Interviews were conducted with selected Councillors, management and Audit staff.

The main objective of this review was to verify the adequate fulfilment of the City’s expectation of the internal audit activity and its conformity to the IIA’s International Standards for the Professional Practice of Internal Auditing. The process also provided the opportunity for the consultant to offer observations related to the audit practices as well as professional industry best practices. This validation exercise was conducted during the fall of 2012.

Results

The consultant found that overall, the City's Audit Services Division "generally conforms" to the IIA Standards. This is the highest level of compliance and it means that the City's internal audit activity has a charter, policies and procedures that are judged to be in accordance with the Standards in all material aspects.

In regard to positive aspects and conformity with the Standards, the consultant stated that the City of Hamilton's Audit Services Division is well structured and progressive. The staff are well educated and credentialed. Audit staff members are encouraged and supported to obtain professional certifications and pursue related professional development. Staff moral appears high. Regarding the work the Division performs, the planning, fieldwork and reporting aspects of audit projects are aligned with leading practices. Reports to the Audit, Finance and Administration Committee are well written and comprehensive.

There were six areas that the consultant rated as "partially conformed", meaning that a deficiency/deviation from the Standards was noted but is not significant enough to preclude Audit Services from performing its responsibilities in an acceptable manner and does not impact the overall rating for that particular standard. The six areas are noted in Appendix C of the consultant's report and are summarized below. The following opportunities will address the minor deficiencies in conformity with the Standards:

- Use of term "Conforms with the International Standards for the Professional Practice of Internal Auditing";
- Update of risk factors annually;
- Evaluation of the organization's ethics related program;
- Review of the information technology governance;
- Consideration of fraud potential; and
- Risk consistent with consulting engagement's objectives.

The management responses as provided by the Director of Audit Services are noted as part of Appendix C of the consultant's report.

The consultant also identified opportunities to improve existing practices that may strengthen the effectiveness of the Division. The consultant's observations and identification of opportunities to implement leading practices can be summarized as:

- Updates to Audit Committee charter to stress range of responsibilities;
- Mention of information technology standards in the Audit Charter;
- Inclusion of IS risk for IT audits;
- Use of automated data analysis tools;
- Automation of working paper files;
- Annual survey of management and audit staff;
- Enhancement of Audit Effectiveness Questionnaire;
- Development of audit phase completion checklist;
- A Certified Information Systems Auditor (CISA) on staff;
- Expansion of Audit Policy Manual; and
- Separate Audit Services' intranet site.

More details and the management responses to each of the identified opportunities is presented in Appendix D of the consultant's report.

Benefits

Compliance with the IIA's International Standards for the Professional Practice of Internal Auditing is an important component of audit quality and is important in maintaining credibility with Council, management, staff and the taxpaying public.

IIA Standards and independent quality assurance reviews/validations also benefit the Internal Audit Staff by:

- Strengthening consistency and uniformity among audit practices;
- Providing a score card of performance against internal audit standards; and
- Benchmarking the internal audit function against current best practices and presenting recommendations for improvement.

ALTERNATIVES FOR CONSIDERATION

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

N/A

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN:

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

APPENDICES / SCHEDULES

Appendix “A” to Report AUD13017

ap/jg

Lal Balkaran

MBA, CIA, FCGA, FCMA, CGMA

Internal Audit, Risk, and Corporate Governance Consultant

City of Hamilton

Audit Services Division

City Manager's Office

External Validation of the 2012 Self-Assessment Review

Summary and Observations Report

March 2013

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I. Overview

Background

I was engaged by the City of Hamilton Audit Services Division (“ASD”) to perform an external validation of their self-assessment. The principal objective of my engagement was to assess the ASD’s conformance to The Institute of Internal Auditors (“IIA”)’s *International Standards for the Professional Practice of Internal Auditing* (IIA *Standards*) and compare their audit practices against leading practices in other select municipalities. As a result, information from the audit departments of the Cities of Oshawa, Calgary and Mississauga, was used for this comparison.

Opinion

It is my overall opinion that the ASD activity generally conforms to the IIA *Standards* and Code of Ethics. For a detailed list of conformance to individual standards, please see Appendix A.

The IIA *Quality Assessment Manual* suggests a scale of three ratings, “generally conforms,” “partially conforms,” and “does not conform.” “Generally Conforms” is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. “Partially Conforms” means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the ASD’s activity from performing its responsibilities in an acceptable manner. “Does Not Conform” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

There were six “Partially Conformed” key areas on which I focused and my observations and recommendations are contained in Appendix C.

Scope

As part of the preparation for this validation, the ASD prepared a self-assessment report with detailed information against each IIA *Standard* which was the basis for my validation. In addition, seven City of Hamilton staff members were selected for interview. They included the City Manager; Chair of the Audit, Finance, and Administration (A, F& A) committee plus one additional committee member; Director, Audit Services Division and one Senior Auditor; Director, Information Services; and General Manager, Finance and Corporate Services. A summary of the interview results has been provided to the Director, Audit Services. I also reviewed a range of information including the ASD’s risk assessment and audit planning processes, audit policies and procedures, tools and methodologies, engagement and staff management processes, two sample reports to the A, F& A committee and two working paper files for 2012.

The scope of the project included:

- Assessment of the quality of the risk assessment methodology;
- Evaluation of the efficiency and effectiveness of the audit methodology used to conduct internal audits;
- Evaluation and effectiveness of the quality of reporting by the ASD;
- Analysis of audit tools that support the internal audit processes;
- Evaluation of the ASD’s training and personnel review process; and
- Analysis of the ASD’s mission and practices to ensure they are inline with the A,F&A committee members, senior management and auditees’ expectations.

Project Methodology

My project approach consisted of:

- Conducting structured interviews with the seven staff members mentioned above. The interviews were held to gain an understanding of the needs, expectations and views regarding the ASD's structure and general performance;
- Reviewing documentation including internal audit policies and procedures, the risk assessment and related methodology documentation, the internal audit plan, a sample of two audit working paper files, staff profiles, quality assurance program, budgets, audit tools, and any other information I felt relevant to meeting the project objectives;
- Comparing how the ASD compares against internal audit leading practices at other select municipalities (Calgary, Oshawa, and Mississauga);
- Preparing an "Independent Validator Statement" (see Appendix B) to conform with the IIA *Quality Assessment Manual*; and
- Preparing a report that summarizes my findings and recommendations in conformance with Tool #21 of the above manual.

II. Executive Summary

General

Included in Appendix C is a matrix which summarizes my detailed observations and recommendations. The observations were assigned a rating¹ which is based on three levels of descending priority. The recommendations are presented for management consideration and represent a suggested approach to enhance the related process. Implementation decisions regarding which observations and recommended course of action to implement are the responsibility of ASD management.

Positive Attributes

The City of Hamilton's Audit Services Division is well-structured and progressive, where the IIA *Standards* are understood and management is endeavoring to provide useful audit tools and implement appropriate practices. Some successful practices in place are:

- The ASD is well-respected and is considered a valued business adviser to many throughout the City;
- Reports to the Audit, Finance and Administration Committee (A, F& A) are comprehensive;
- The Director, Audit Services works effectively with the AF& A and has ongoing communication with the respective members. An open communication channel generally leads to better corporate governance;
- All five staff members who perform internal audit engagements are certified internal auditors and hold other recognized accounting certifications;
- There is an established risk methodology for determining the 2012 audit plan;
- There is a comprehensive audit policies and procedures manual;
- Knowledge Management is encouraged and practiced as there is a Library with some good books, research reports, and specialized publications;
- There is active participation in professional associations;
- Staff morale is high;
- The Planning, Fieldwork, and Reporting aspects of audit engagements are aligned with leading practices;
- Key performance measures and metrics are used to monitor audits and manage the audit effort; and
- An Audit Effectiveness Questionnaire is done after each audit.

As with any function within an organization, there are opportunities to improve existing practices that should further strengthen the overall effectiveness of the ASD. I have summarized my recommendations by key process below. These recommendations are based on my detailed observations and recommendations included in Appendix C.

¹The rating system used is High, Moderate and Low with a level of recommended action to be taken by the ASD defined for each rating.

Summary of Observations and Recommendations

The observations and recommendations are divided into two groups:

A. Those on which the IIA *Standards* have an impact;

There are six key areas where there is partial deviation from the *Standards* but from an overall perspective, these do not impact the overall rating for that particular standard. These six areas are summarized as follows:

- Audit reports do not contain the term that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing*;
- The risk universe is not updated annually;
- The ethics-related objectives, programs, and activities are not reviewed;
- The information technology governance is not reviewed;
- Fraud risk management has not been an area of focus; and
- Consulting engagements are not performed.

See Appendix C for detail observations and recommendations that support each of the above issue.

B. Those that are based on leading practices at other municipalities and at other organizations.

There are eleven areas for improvement summarized as follows:

- There is a need to revise the Audit Committee charter;
- The internal audit charter needs to include a reference to information technology (IT) standards;
- The annual risk assessment does not include IT risks;
- Automated tools like Audit Command Language (ACL) and computer assisted audit techniques (CAATs) are not used in ASD;
- Working paper files are not automated;
- An annual City management and ASD staff surveys are not done;
- The Audit Effectiveness Questionnaire needs to be expanded;
- A File Completion Checklist is not used in working paper files;
- No ASD staff member holds the certified information systems auditor (CISA) certification or membership to the Information Systems Audit and Control Association (ISACA);
- There is a need to revise the Audit Policies and Procedures Manual; and
- ASD needs to have its own site within the City's website.

See Appendix D for detail observations and recommendations that support each of the above issue.

III. Appendix A – IIA Standards Compliance Evaluation Summary

Standard Number	IIA Standard	Generally Conforms	Partially Conforms	Does Not Conform
	OVERALL EVALUATION	✓		
	ATTRIBUTE STANDARDS	✓		
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board	✓		
1120	Individual Objectivity	✓		
1130	Impairment to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Program	✓		
1310	Requirements of the Quality Assurance and Improvement Program	✓		
1311	Internal Assessments	✓		
1312	External Assessments		✓	
1320	Reporting on the Quality Assurance and Improvement Program		✓	
1321	Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”		✓	
1322	Disclosure of Nonconformance		✓	
	PERFORMANCE STANDARDS	✓		
2000	Managing the Internal Audit Activity		✓	
2010	Planning		✓	
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing			Not Applicable

2100	Nature of Work		✓	
2110	Governance		✓	
2120	Risk Management		✓	
2130	Control	✓		
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”		✓	
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Resolution of Senior Management’s Acceptance of Risks	✓		
IIA Code of Ethics		✓		
Definition of Internal Auditing		✓		

IV. Appendix B - Independent Validator Statement

I was engaged to conduct an independent validation of the City of Hamilton Audit Services Division (ASD) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*.

In acting as validator, I am fully independent of the City of Hamilton and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period September 17th – October 5th, 2012 consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with seven select staff members.

I concur fully with the ASD's activity's conclusions in the self-assessment report.

Implementation of my recommendations will further improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.



Lal Balkaran
Independent Validator

March 2013

V. Appendix C - Observations and Recommendations Summary – IIA Standards

	IIA Standard	Observation and Recommendation	Management Response	Rating ¹
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>Since the ASD processes conform with the IIA Standards, it is recommended that the phrase be used in audit reports on a go-forward basis.</p>	<p>Agreed. Audit reports to Committee and Council will include the conformity with the <i>International Standards for the Professional Practice of Internal Auditing</i> beginning Quarter 2, 2013, where supported.</p>	Moderate
2	<p>2010.A1 – 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.</p>	<p>The Director, Audit Services prepares the annual audit plan based on the audit universe. Inputs are obtained from senior management and Council and an assessment of risks is carried out.</p> <p>However, the audit universe is not updated annually to reflect the most current strategies and direction of the organization.</p>	<p>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, it 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.</p>	High
3	<p>2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.</p>	<p>Consideration should be given to including aspects of the City’s Code in some audits or a full-fledged audit of the Code be done.</p>	<p>Agreed. The 2013 Audit Work Plan includes a review of Ethics and Ethical Processes. Expected Completion – June, 2013.</p>	Moderate
4	<p>2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.</p>	<p>A review of the City’s information technology governance must 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>	High

	<i>IIA Standard</i>	Observation and Recommendation	Management Response	Rating ¹
5	2120.A2 – The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.	A fraud risk assessment must be an integral component of the overall risk management initiative which is now being considered.	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.	High
6	2120.C1 – During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.	Consulting engagements have not been an area of focus for the ASD. However, whenever these are being undertaken, audit staff must be alert to the risks associated with the consulting engagement.	Not Applicable. Due to resource constraints, consulting engagements have not been considered as an area of focus.	High

1. Legend of Rating:

High – Recommended action should be implemented immediately.

Moderate – Recommended action requires management attention and should be implemented within a reasonable time period (180 days).

Low – Recommended action presented for management consideration but not critical to overall process.

VI. Appendix D - Observations and Recommendations Summary – Leading Practices

	Current State of ASD	Observation and Recommendation	Management Response	Rating ¹
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, e.g., it is not fully structured to show its range of responsibility and it does not mention of other responsibilities.</p>	<p>Use the Model Audit Committee charter in the IIA’s QA Manual 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>	Low
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>Under the “Professional Standards” section of the charter, 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>	Low
3	<p>The annual risk assessment process is well-documented. While appropriate risk assessment practices have been established for ASD 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>One audit out of 18 or 5% of audits planned for</p>	<p>The City uses Peoplesoft financial systems (Procurement; HR; Payroll; General Ledger; Financial Reporting). There are key risks that need to be identified in these applications and overall general information technology areas.</p> <p>A formal risk assessment methodology relating to information technology audits should be</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>Agreed. In the case of a direct IS audit, various methodologies (including GTAG #4)</p>	High

Current State of ASD	Observation and Recommendation	Management Response	Rating ¹
<p>this year is IT related.</p>	<p>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>will be considered in carrying out the particular IS risk assessment.</p>	
<p>4</p> <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>ACL is recognized worldwide as the leading stand-alone data analysis software for audit and financial professionals. Providing a unique and powerful combination of built-in audit analysis commands, ad-hoc data access and a simple scripting language, ACL enables auditors to gain immediate visibility into transactional data critical to the City. ACL provides immediate visibility into transactional data enabling auditors to:</p> <ul style="list-style-type: none"> • Analyze entire data populations for complete assurance; • Identify trends, pinpoint exceptions and highlight potential areas of concern; • Locate errors and potential fraud; • Identify control issues and ensure compliance with organizational and regulatory standards; • Age and analyze financial or any other time-sensitive transactions; and • Cleanse and normalize data to ensure consistency and accurate results. <p>ACL can be used to do so much with so little. E.g., in data mining and data analytics to detect unusual fluctuations on data, unauthorized purchases, persons breaching their signing authority limits, duplicate payments, fraudulent</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>Alternative to be Implemented. 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</p>	<p>High</p>

	Current State of ASD	Observation and Recommendation	Management Response	Rating ¹
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>invoices, etc. In two documented cases, a company spent \$800 buying ACL and used it to examine all sales transactions for an entire year. Over \$3 million of unbilled customers were detected within four months.</p> <p>In another instance, ACL was used to detect two purchasing staff circumventing controls by approving a series of purchase orders just below their authority limits (approving a series of transactions for \$495 each when their limit was \$500) to buy an item for \$15,000.</p> <p>Spending on ACL should be considered. In addition, have someone from the Information Services work closely with an ASD staff member to develop specific queries in Peoplesoft to review specific transactions. E.g., a query to check for duplicate payments.</p>	<p>further investigation. These queries will be used as an alternative to commercial data analysis software.</p>	Moderate
		<p>An automated working paper system should be introduced.</p> <p>With the focus on a green economy, the thrust of the audit effort should be towards using less paper. Paperless systems can improve the quality and efficiency of internal audits and foster new and creative approaches to auditing.</p> <p>Auditors can review and share audit files even if they are all at different locations. E.g., data can be retrieved from data bases stored on a USB key. The internal audit effort can become more efficient and effective. In fact, many audit departments report that new technologies are enabling them to meet or exceed their annual</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>	

	Current State of ASD	Observation and Recommendation	Management Response	Rating ¹
		<p>audit plans at less cost.</p> <p>Working paper software conforms to both IIA and ISACA standards and addresses all elements of the end-to-end audit process including quality assurance (QA) and follow-up activities.</p> <p>Moreover, it saves on paper and files are retained electronically. There is also provision for items to be scanned and attached as audit evidence.</p>		
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>	<ul style="list-style-type: none"> • Consider introducing an annual management survey to obtain management feedback on their perception of ASD and the audit effort. • Even though the ASD is small, introduce an annual staff satisfaction survey. 	<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>	Low
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>Consider 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>Alternative Implemented/Disagreed. For the item 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</p>	Low

	Current State of ASD	Observation and Recommendation	Management Response	Rating ¹
8	<p>Elements of a file completion checklist are contained in each audit working.</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>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>Introduce a file completion checklist to 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>testing performed, the auditee would have a difficult time gauging these without an audit techniques background.</p>	<p>Low</p>
		<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>		

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9	<p>Although all ASD staff members 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>There are three categories of IT Knowledge that all audit staff should be made aware of:</p> <p>Category 1 – Required by all audit staff. It entails an understanding of:</p> <ul style="list-style-type: none"> • Differences in software used in applications; • Operating Systems; • Systems Software; • Networks; • IT Security and Control Components; • The Business itself and its key risks; and • Impact of technology on business operations. <p>Category 2 – Required by supervisory staff.</p> <p>In addition to Category 1, this requires an understanding of the following:</p> <ul style="list-style-type: none"> • IT issues and elements to be addressed in: <ul style="list-style-type: none"> • Audit Planning; • Testing; • Analysis; • Reporting; • Follow-up; and • Assigning auditor skills to elements of audit projects. <p>For an IT specialist in an audit department, the knowledge required will be, in addition to Category 2, the following:</p> <ul style="list-style-type: none"> • An understanding of the underlying technologies supporting business components; and • Familiarity with the threats and 	<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>	Moderate

Current State of ASD	Observation and Recommendation	Management Response	Rating ¹
	<p>vulnerabilities associated with technologies.</p> <p>It is suggested that one staff ASD member who has an inclination towards technology auditing should be identified and encouraged to pursue the CISA (certified information systems auditing) designation and become an ISACA member.</p>	<p>Alternative to be considered. All professional staff have been approached and none are interested in this accreditation. As an alternative, candidates for future vacancies will be possibly screened for this designation.</p>	
<p>10</p> <p>There is a comprehensive Audit Policy Manual that has a wealth of information. 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>The following should 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 5 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 (IPPF)</i>”.</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>Agreed. The Audit Services Policies and Procedures Manual has been updated in February, 2013 to include these changes.</p>	<p>High</p>
<p>11</p> <p>The ASD does not currently have its own intranet on the company’s website which is being revamped. However, when it is developed, the ASD should populate its site with some critical information that will help communicate and lift the profile of the audit effort throughout</p>	<p>The ASD 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; 	<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</p>	<p>Low</p>

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	the City.	<ul style="list-style-type: none"> • IIA Standards; • 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>	2013.	